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Debt in Political Campaigns

Discussion by Thomas Lambert – August 2020

Great paper

- First focus on personal debt outstanding

- Is personal debt an important channel to buy access and influence?
  - Yes: money goes straight into elected politicians' pocket

- Two important and novel results:

1. Indebted politicians subsequently raised more funds
   - Implication: Is debt used to bypass traditional contribution limits?

2. Indebted politicians are more likely to be influenced by special interest groups in their legislative voting
   - Implication: Is debt a corrupting form of money in politics?

Senator Ted Cruz is suing the FEC

OPENSECRETS NEWS

Ted Cruz's FEC lawsuit could give special interests more power in federal elections

By Karl Evers-Hillstrom | April 1, 2019 5:29 pm

FEC cites Ovtchinnikov and Valta (2019)

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

TED CRUZ FOR SENATE, *et al.*,	)	
Plaintiffs,	)	
v.	)	Civil Action No. 19-908-NJR-APM-TJK
FEDERAL ELECTION COMMISSION, *et al.*,	)	
Defendants.	)	

a. The FEC's first study is an unpublished paper by Alexei Ovtchinnikov and Philip Valta, *Debt in Political Campaigns*, which has not yet undergone peer-review, much less the crucible of interrogation in a deposition. Ovtchinnikov and Valta analyzed campaign finance data

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My comments/suggestions

1. Repayment pre *vs.* post-election
2. Role of ideology
3. IV estimations
4. External validity
5. Contribution: Finance, Politics, both?

Repayment pre *vs.* post-election

$$\text{Voting score}_t = \text{debt}_{t-1} + \text{PAC}_{t-1} + \gamma\ \text{debt}_{t-1} \times \text{PAC}_{t-1}$$
$$+ \text{controls}_{t-1} + \text{politician FE} + \text{year x state FE}$$

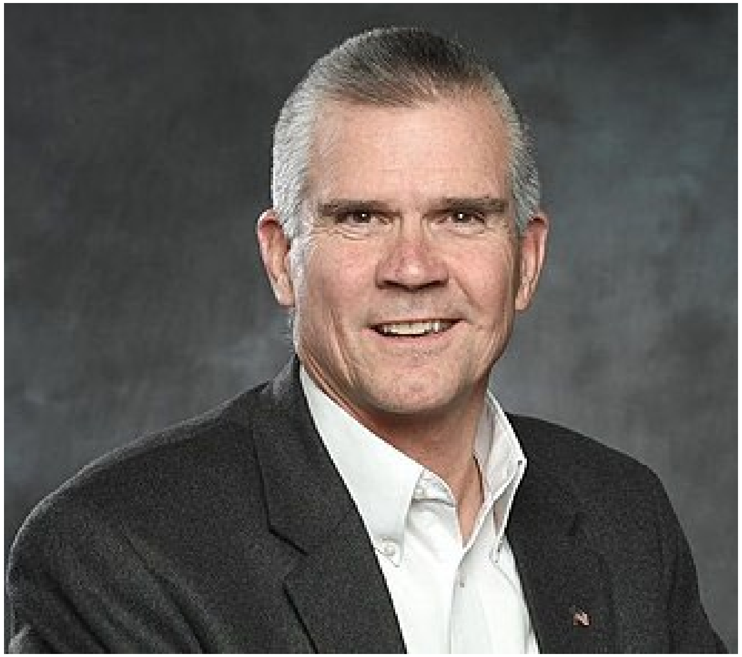
- Why doesn't PAC contemporaneous?
  - Post-election personal loan repayments → More direct evidence of vote pledging hypothesis
    - Influencing vote is more likely to be effective if the donors target current officeholder (than a candidate who might be in office in the future)

- Is there a way to further pin down the channel by looking at the actual use (i.e., retiring previous debt or not) of the labor PAC contributions in year *t*?

- Clarify the timing of the mechanism at work

Anecdote

- Republican Senate candidate Matt Rosendale started his 2018 campaign by raising funds for the purpose of retiring his 2014 debt, while these funds did not count toward contribution limits for the 2018 cycle (see *The Daily Beast*, July 12, 2018)



Labor voting score (AFL-CIO)

HOUSE SENATE 2012

Name | State: - State - | Party: Democrat

Name▲	State	District	Party	Score	Lifetime Score
Rep. Gary L. Ackerman	NY	5		95%	95%
Rep. Jason Altmire	PA	4		86%	87%
Rep. Robert E. Andrews	NJ	1		86%	97%
Rep. Joe Baca	CA	43		95%	99%
Rep. Ron Barber	AZ	2		100%	95%
Rep. John Barrow	GA	12		67%	72%
Rep. Karen Bass	CA	37		95%	98%
Rep. Xavier Becerra	CA	34		100%	97%
Rep. Shelley Berkley	NV	1		86%	95%
Rep. Howard L. Berman	CA	28		95%	95%
Rep. Timothy H. Bishop	NY	1		90%	98%

HOUSE SENATE 2012

Name | State: - State - | Party: Republican

Name▲	State	District	Party	Score	Lifetime Score
Rep. Sandra Adams	FL	24		14%	6%
Rep. Robert B. Aderholt	AL	4		20%	15%
Rep. Todd Akin	MO	2		13%	6%
Rep. Rodney Alexander	LA	5		29%	20%
Rep. Justin Amash	MI	3		24%	16%
Rep. Mark Amodei	NV	2		17%	19%
Rep. Steve Austria	OH	7		14%	9%
Rep. Michele Bachmann	MN	6		5%	5%
Rep. Spencer Bachus	AL	6		19%	11%
Rep. Lou Barletta	PA	11		29%	31%
Rep. Roscoe G. Bartlett	MD	6		24%	8%

Role of ideology

$$\text{Voting score}_t = \text{debt}_{t-1} + \text{PAC}_{t-1} + \gamma\ \text{debt}_{t-1} \times \text{PAC}_{t-1}$$
$$+ \text{controls}_{t-1} + \text{politician FE} + \text{year x state FE}$$

- Ideology (not party affiliation) can still drive the results
  - Republicans who deviate more often from the party mean (i.e., more likely to vote pro-labor), may have harder time to raise funds from traditional Republican donors and thus are more likely to be personally indebted

- Use DW-NOMINATE score of Poole and Rosenthal (2007)
  - Widely used proxy in Poli Sci (e.g. Stratmann 2002 and Mian *et al.* 2010)
  - DW-NOMINATE score is an estimated ideological position based on the legislator's past roll call voting records within a random utility choice model

IV estimations

1. Economic reasoning behind both instruments is rather unclear (exclusion restriction)
   - *"This assumption seems plausible considering that different meta-analyses of Congressional votes consistently show that the most important factors affecting voting behavior are legislator ideology and party affiliation, with other factors having little direct influence on votes [...]* (p. 22)."

2. Definitions of both instruments "Opponents" and "Status" are questionable

3. Other points:
   - The magnitude of the IV estimates is about six times of that of the OLS estimates. Is there an economic reason to expect the OLS estimates to understate the true effect here? Explain
   - Why aren't both instruments used together? (It would also allow Durbin–Wu–Hausman test)
   - Why don't you control for year x state FE (in both stages) as in all robustness checks (in Tables 7 and 9)

External validity

- Focus is on voting on labor-related legislations
- Labor PAC: ~6% of contributions received by politicians on average
- Stratmann's (2002) test on the repeal of the 1933 Glass-Steagall Act is a great addition to the paper
- Should you do more?
  - Using e.g. Mian *et al* (2010) setting on the 2018 Emergency Economic Stabilization Act
  - Use similar score on e.g. financial services-related legislations? (US Political Stats, CQ Press)

Contribution: Finance, Politics, both?

- Paper primarily relates its contribution to the finance literature on (1) debt financing and (2) The effect of political connections on firm value

- Both strands of literature are secondary here

- This paper is (I think) primarily related to the positive political economy literature on the voting consequences of money in politics, see:
  - Stratmann (JLE 2002): role of special interest campaign contributions
  - Mishra and Igan (JLE 2014): role of special interest campaign contributions and lobbying
  - Mian *et al (*QJPS 2013): role of special and constituent interests
  - Mian *et al (*AER 2010): role of constituent interests, special interests, and politician ideology
  - Tahoun and van Lent (RF 2019): role of politician personal wealth interests
  - Baker (2008): role of politician self-financing (and thus personal loans)

- See Lambert and Volpin (2018) for a recent survey

Conclusion

- Very nice and important paper: first insights on politician indebtedness
- Highly recommended!
- My suggestions are mainly about clarifying what the interaction term of interest exactly captures (hence the channel), the (omitted) effect of ideology, and the place in the literature
- Some concerns revolve around the IV exercise and external validity
- Good luck with the paper!

Other (small) points

- Be more explicit in the Introduction that you also provide a test on a financial services legislation (I discovered that toward the very end of the paper, while I think it's an important test)

- Figure A.1 in the online appendix is missing (cf. footnote 12)

- Table 7 Panel D: why is the total # observations across the three estimations not closer to the baseline estimation in Table 5 (i.e. ~ #6,000)?

- Misleading title? Shouldn't you emphasize "personal loans" instead? Shouldn't this also be clearer from the abstract? My point is that we can come with a very different incentive story if politicians rely mostly on bank loans

- Should you also run regressions in Table 3 for the period 1999–2014 to be in line with the analysis on voting?

Other (small) points (cont'd)

- Show summary statistics for IVs

- Black (1948) and Arrow (1950) are missing in the references section

- See also Baker, A. (2008). Are Self-Financed House Members Free Agents? *Congress & the Presidency: A Journal of Capital Studies*.

- Corruption questions (worth investigating in another paper?):
  - What is the interest rate politicians apply to themselves? Very high?
  - What is the interest rate charged when the loan come from a bank? Very low?
  - See Republican Mike Braun's campaign financing (*The Daily Beast*, October 4, 2018)