DISCUSSION OF:

"DEBT IN POLITICAL CAMPAIGNS"

by Alexei Othchinnikov and Philip Valta

Discussion by:

Adair Morse
University of California, Berkeley

June 2018, WFA

Contributions

I. Documenting use of campaign debt

- Debt is used at end of campaign, by novice candidates who are more likely to lose, in down business cycles.
- Debt is almost all personal loans

II. Why are candidates using debt?

- Authors' punchlines: Seems to be information story of moral hazard risk because of timing of debt

III. What are the consequences?

- Authors' punchline: Debt is not generating more alignment with local voters, but rather is causing politicians to vote with special interest groups to pay off debt

---

My punchline: Absolutely fascinating. I had no idea of the facts.

- Also appreciated: Authors write the paper in a style to build readers' trust.

Use of campaign debt comments

- Debt is almost all personal loans

….

Year	Total Personal Debt (net)	Total Outside Debt (net)	Personal Debt / Candidate	Outside Debt / Candidate	Total Receipts / Candidate
1995	276,119	34,763	13,149	1,655	46,688
1996	105,304,048	844,431	66,606	534	520,328
1997	311,949	200	6,932	4	39,236
1998	78,420,304	-542,945	68,132	-472	640,498
1999	1,104,906	16,698	25,695	388	257,885
2000	86,302,448	1,362,980	68,657	1,084	874,774
2001	674,023	-6,378	12,255	-116	64,211
2002	83,406,328	291,695	64,807	227	755,120
2003	114,518	1,500	2,386	31	124,569
2004	65,213,168	1,461,432	48,594	1,089	938,977
2005	121,900	-1,722	3,048	-43	27,883
2006	86,099,624	-671,071	61,368	-478	1,020,269
2007	50,134	2,250	895	40	52,827
2008	129,014,640	8,244,360	84,878	5,424	1,782,865
2009	332,992	50,312	4,325	653	92,498
2010	162,572,256	-4,166,765	77,972	-1,998	910,286
2011	2,560,721	9,023	43,402	153	109,795
2012	148,109,440	472,540	77,504	247	1,739,874
2013	686,417	-3,943	9,948	-57	122,787
2014	74,872,552	1,025,869	46,418	636	1,057,720
2015	1,752,535	11,627	27,383	182	120,433
2016	140,455,936	1,444,778	85,540	880	1,948,008
2017	84,348	0	21,087	0	49,475
Total	106,535,560	725,173	67,222	569	1,106,185

‘Use of campaign debt’ comments

- Debt is almost all personal loans
  - They can get paid off (with interest) by the office if they win and forfeit if not.
  - The paper tries to generalize to bank loans and other debt, but these are trivially observed

---

Comment 1:

- **Thus, focus discussion to personal loans**
  - **Transparency in saying what the data are leads to more transparent stories**

‘Why candidates use debt’ comments

Candidates have to use debt because donations are hindered by:

1. Information frictions and the resulting moral hazard problems
   - Interest groups do not donate because of lack of clarity on policy => resulting moral hazard problems
     - Authors’ parallel Diamond’s papers on public vs private debt

2. Signaling
   - Signaling to voters that if elected, politician will not be <u>beholden to special interests</u>
   - Signaling quality with <u>skin-in-the-game</u> to other candidates, to outside funders

‘Why candidates use debt’ comments

Author’s findings:

Consistent with both stories, more campaign debt occurs…

with <u>novice candidates</u>, in <u>open races</u>, with <u>losing ex post outcomes</u>

- Because debt is **late in the campaign**, the authors argue the results support information story

<u>Comment 2:</u> I’m not convinced on this disentangling the stories & I am not convinced these are the only stories:

- Information story does not necessarily fall late in campaign.
- And…

‘Why candidates use debt’ comments

Simple other stories are intuitive as well, e.g.,

- Late-in-campaign story of avoiding a negative signal
  - Losing candidates are running out of money
  - Cannot have a negative signal of staff layoff emerge, not just for this campaign but for future careers.

Point: I think your subsequent tests up as dependent on this part of the paper is not helping the final `What are the consequences?’ analysis.

- It is interesting to investigate why. I am not arguing to get rid of it.
- Perhaps you could think about more details to be able to delve into what information is asymmetrically know, leading to the need for signals or for the potential of moral hazard

‘Why candidates use debt’ comments

[Quick] Comment 3

- Fascinating anecdote about a politician whose campaign debt to herself is at a high interest rate

- Tantalizing series of corruption questions:
  - What is the fair rate, given the failure probability of the selection?
  - Who is using this mechanism to make money?
  - What is the polling of politicians prior to taking out debt at different interest rates?

- Authors: most politicians do not comply with the regulation that mandates that they disclose the loan terms.
  - Someone should FOIA the correspondence between the agency and the politicians

- Point of this slide – anything the authors can do on this is another great paper

`What are the consequences?' comments

- Tests set up as:
  - Debt causes politicians, once elected, to align more with their constituents,

  or
  - Debt causes politicians to cater to interest groups away from constituents

  - Very important!

Comment 4:

- Authors do a very nice job of presenting the empirical difficulties of building a causal story on these tests and building trust in their work.
- I am just not totally convinced:

`What are the consequences?' comments

Voting on labor outcomes

= prior debt + Labor PAC contributions + γ Debt* PAC + X + politician f.e.

- X includes % of votes in last election, rank in Congress, age, other contributions received, Congressional Committees f.e., state* year f.e.

<u>Authors: interpretation of γ is :</u>

- "*incremental sensitivity of indebted politicians voting to political contributions received from labor … PACs*"

<u>Hard to disentangle from(?):</u>

- "*correlation of politicians voting with political contributions received from labor .. PACs*"

`What are the consequences?' comments

Voting on labor outcomes

= prior debt + Labor PAC contributions + γ Debt* PAC + X + politician f.e.

- Ie: Is this a plausibly causal estimation… perhaps?
  - The paper shows that these are novice politicians, which means that the politician fixed effects are picking up a later self and not an earlier self
  - Not testing whether the politician is changing his/her policy to cater versus just being different from constituents when first elected and evolving to being more like constituents later

	Panel A: OLS		
	Labor unionization terciles		
	Low Unionization	2nd Tercile	High Unionization
Labor	-0.0159	0.1190	0.2553[c]
	(0.1408)	(0.0782)	(0.1516)
Trade	0.2763[c]	-0.1083	-0.2583
	(0.1497)	(0.1955)	(0.2128)
Corporate	-0.1043	-0.1422[c]	-0.0948
	(0.0912)	(0.0808)	(0.0950)
Labor × Debtholder	0.4268[b]	0.0867	-0.3273
	(0.2049)	(0.1992)	(0.2484)
Trade × Debtholder	0.0064	-0.1036	0.0342
	(0.2685)	(0.3302)	(0.3773)
Corporate × Debtholder	-0.0257	-0.0293	0.1708
	(0.2702)	(0.1830)	(0.2814)

Debt positively impacts (correlates ?) voting pro-labor, when labor PACs contribute, driven by effect in low unionization areas.

Troubling me:

Story of selection of novice politicians who won on change platform supported by a PAC

Rough thought:

- Run with changes in future PAC fundings that disentangles PAC support for a candidate versus support for a politician’s platform

Conclusion

- This a great paper
  - I learned a lot and have a lot of new ideas to ponder about finance in politics

- My comments are about tightening up precision on what you are showing

- Causality matters. But correlation is interesting in understanding selection.
  - Where are you in causality and where in interesting selection?