Discussion on:

“Money, Money, Money: Finance, Banks, and Politics”

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If you imagined a world

- Where money does not corrupt the electoral process
- Where informed voters select the best politicians
- Where elected politicians distribute resources fairly
You were a dreamer

✓ Special interests groups support electoral campaigns expecting favors in exchange

✓ Politicians tend to take advantage of their position to enrich themselves

✓ Or to favor they friends
But dreams may come true

✔ Disclosing information about the wealth of politicians (tax returns) may help select better ones

✔ And if information disclosure is not enough (or possible)

✔ We can always ask President Xi to run an anti-corruption campaign
Seriously

✓ These are very interesting papers

✓ They take advantage of new data ("treasures") and use them to understand the nexus between money and politics

✓ Two papers look at how money affect politics

✓ And two at how politics affects money (credit)

✓ TORs of an ABCDE discussant: be brief and treat all papers equally…
Money and Politics (I)

✓ The treasure here is in Colombia: a dataset that links campaign donors and recipients of public contracts.

✓ Do campaign contributions increase the probability (i) of getting public contract, and of (i) getting them at better conditions?

✓ Yes, the probability of getting public contract increases by about 10 pp.

✓ And the terms of the contract are slightly better.
Money and Politics (I)

✓ The results smell true, and they are very much in line with Baltrunaite’s (2017)

✓ In Estonia the probability that a “contributing” firm wins a public contract decreased by about 5% after a ban on political contributions

✓ While the RDD analysis is neat, I doubt whether the results can be generalized to less tight elections…

✓ The value of political contributions is higher in tight elections

✓ And this is why the probability of giving a contract to a donor is higher, the lower is the margin of victory
Money and Politics (II)

✓ The treasure here is in India: a dataset that links (unexpected) disclosure of financial records with the probability of incumbents to re-run in elections

✓ The disclosure of incumbents’ growth in assets reduces the probability that they re-run for office by 13 percentage points

✓ This suggests that (financial) information disclosure may improve the selection of legislators
Money and Politics (II)

✓ My only “concern” vis-à-vis the paper is with respect to Assumption 2 (non mimicking/pooling)

✓ When it holds, the behavior of politicians is the same when disclosure is expected and when it is not

✓ Only the probability of re-running is different: disclosure improves political selection but not has no reputation or disciplinary effects

✓ Avis, Ferraz, and Finan (forth.) find discipline (72%) and reputation (28%), but no political selection (<1%) effect
Politics and Money (I)

✔ The treasures here is in Thailand: where the government donated resources to rural villages for the creation of credit funds

✔ Which were managed by elected village committees that decided who obtained credit and under which conditions

✔ The paper finds that credit was not distributed according to equity or efficiency criteria, and it tended to benefitted connected households

✔ But markets sort of reallocated resources
Politics and Money (I)

✓ Fascinating paper, but quite opaque

✓ I had problem in understanding how the productivity of the different households was computed; and whether the assumptions make sense for rural Thailand

✓ Without a model, it is unclear what the benchmark for an optimal allocation of resources is

✓ The fact that connected households are only 10pp points more likely to obtain credit does not seem big to me

✓ How the GE effects square with the fact that households received credit from relatives?
Politics and Money (II)

✓ The treasure here is in China: where the authors got access to the credit data of one of the big five state bank

✓ Look at the determinants of lending to SOEs and non-SOEs?

✓ How they changed after the 2012 anticorruption campaign?

✓ The credit gap between SOE and Non-SOE drops by 14%, the spread shrinks by 0.31%, loan terms by 8.8%

✓ Hence…they infer is a “casual” effect of anti-corruption measures on bank lending
Politics and Money (II)

✓ The analysis of the determinants of State bank lending is very interesting

✓ I had some problem with the model, do we need it?

✓ Why aren’t you introducing bankruptcy cost to avoid corner solutions? Can you “microfund” $b$?

✓ The paper cannot test what are the effects of the anticorruption campaign (*post hoc non propter hoc*)

✓ Can’t you look at some time/geographical variations?
To conclude...

✔ Very interesting session

✔ Fascinating data to look at how money may corrupt politics and how politics may distort credit allocations

✔ What I liked about all these papers is that they used novel data to look at interesting problems

✔ And they also tried to use theory to see what are the right question to ask

✔ This is what ABCDE is all about!