

Financial disclosure and political selection: Evidence from India

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“Holding politicians to account: asset declarations”

- Governments worldwide require asset disclosures by politicians in the name of transparency
- Compliance with disclosure requirements varies vastly across countries (Djankov et al)
- Even if politicians comply, do asset declarations have any effect on the behavior of politicians, or the functioning of government?

Does disclosure affect political selection?

- Ferraz and Finan (2008): Random audits and incumbent reelection in Brazil
- Banerjee et al (2014): Information disclosure (on wealth *levels* and other things) via newspaper inserts in Delhi affects incumbent prospects
- We study the effects of an information disclosure mechanism that is of broad general interest, and examine its consequences for selection

Studying the impact of asset disclosures in India

- We examine the effects of the introduction of asset disclosure requirements for Indian politicians at the state and national level in November 2003.
- The requirements were enacted at a single point in time, whereas state assembly elections are staggered, allowing us to credibly distinguish disclosure effects from time trends

Studying the impact of disclosure

- Politicians' decision to run for office
- Voters' decisions to re-elect incumbents (and how they depend on observed past performance)

Preliminary observation: growth vs levels

- **Level effect:** immediate (negative) effect on candidates' willingness to stand for office due to privacy concerns over assets
 - Could (but wouldn't necessarily) differentially affect incumbents
- **Growth effect:** one-period lagged effect on willingness to stand for office, from concerns over revealing asset *accumulation*
 - Likely to differentially affect office-holders (relative to non-elected candidates)

“Top 10 Richest Indian Politicians”



Asset disclosures in the news

“Delhi Election Watch found that a total of 45 sitting legislators were re-contesting elections and most have shown a huge increase in their assets from 2003 to 2008. The study reveals that of these sitting lawmakers, there are a few who have registered a growth of more than 1,000 per cent in their assets in last five years.”

Tribune India, **November 2008**

“Indian polities make a killing”

- “Congress affiliates question growth of Sukhpal Khaira's assets” [*Times of India*, 2016]
- “Politicians' wealth talk of the town; Disclosures by candidates ahead of Indian election show huge asset growth” [*Straits Times*, 2012]
- “MLAs' assets show marked rise in 5 years” [*Times of India*, 2016]
- “Lok Sabha candidates' assets rise manifold” [*Goa Herald*, 2014]

A set of intuitive predictions

- Disclosure of incumbent asset growth leads to:
 - Increased exit of incumbents (who would lose anyway if they made disclosures)
 - Decreased incumbent disadvantage (since good types no longer are pooled with bad types)
 - Less signal relevance of economic growth (since other signal is available)

Disclosure and political outcomes

- Background and data
- Empirical strategy
- Results

Asset disclosure in India

- Association for Democratic Reforms (ADR) petitioned for release of information on political candidates, leading to a December 2002 Supreme Court ruling making such disclosures mandatory for candidates at the state and national level.
- Punishment for misstatement include financial penalties, imprisonment up to 6 months, and disqualification from holding office

Disclosures of Indian politicians

- Required disclosures:
 - Assets
 - Criminal record
 - Education
- All elections since November 2003 have required candidates' disclosures, available at <http://adrindia.org/about-adr>

State elections in India

- Quinquennial elections held in each state
- Divergence from an exact 5 year cycle is rare (e.g., all states that held elections in Nov 2003 held elections also exactly 5 years earlier)
- Additionally:
 - Elections are set some time in advance
 - We are skeptical that anticipation of the Supreme Court ruling was a first-order concern in setting elections
- Overall, there is good reason to take election timing as exogenous

Timing of state assembly elections

	Election period $e(t)$							
	$e(3)$	$e(2)$	$e(1)$	$e(0)$	$e(-1)$	$e(-2)$	$e(-3)$	$e(-4)$
(A) Just post States								
Andhra Pradesh	2014	2009	2004	1999	1994	1989	1985	1983
Arunachal Pradesh	2014	2009	2004	1999	1995	1990	1984	1980
Chhattisgarh*	2013	2008	2003	--	--	--	--	--
Delhi	2013	2008	2003	1998	1993	1983	1977	--
Karnataka	2013	2008	2004	1999	1994	1989	1985	1983
Madhya Pradesh	2013	2008	2003	1998	1993	1990	1985	1980
Maharashtra	2014	2009	2004	1999	1995	1990	1985	1980
Mizoram	2013	2008	2003	1998	1993	1989	1987	1984
Orissa	2014	2009	2004	2000	1995	1990	1985	1980
Rajasthan	2013	2008	2003	1998	1993	1990	1985	1980
Sikkim	2014	2009	2004	1999	1994	1989	1985	1979
	2013.5	2008.5	2003.6	1998.7	1993.9	1989.4	1984.8	1981.0
(B) Just prior States								
Goa	--	2012	2007	2002	1999	1994	1989	1984
Gujarat	--	2012	2007	2002	1998	1995	1990	1985
Himachal Pradesh	--	2012	2007	2003	1998	1993	1990	1985
Jammu & Kashmir	--	2014	2008	2002	1996	1987	1983	1977
Manipur	--	2012	2007	2002	2000	1995	1990	1984
Meghalaya	--	2013	2008	2003	1998	1993	1988	1983
Nagaland	--	2013	2008	2003	1998	1993	1989	1987
Punjab	--	2012	2007	2002	1997	1992	1985	1980
Tripura	--	2013	2008	2003	1998	1993	1988	1983
Uttar Pradesh	--	2012	2007	2002	1996	1993	1991	1989
Uttarakhand**	--	2012	2007	2002	--	--	--	--
	2012.2	2007.2	2002.2	1997.2	1993.0	1989.1	1985.3	

(continued on next page)

Balance of just-prior vs just-post states

Variables	<i>Just after States</i>	<i>Just before States</i>	(T-stat)
Total Constituencies (ACs)	1,675	1,207	
% Reserved constituencies (SC/ST)	29.0%	29.8%	
Population/AC	248,842	229,568	
Size/AC (sq. kms.)	1,092	741	
Literacy Rate	68.1%	68.5%	(-0.09)
GDP p.c.	22,203	24,203	(-0.43)
Avg. GDP p.c. growth/year	6.2%	5.8%	(0.47)
Corruption Index	4.97	4.69	(0.57)
SC/ST concentration	37.6%	36.4%	(0.11)
Voter Turnout	67.8%	68.1%	(-0.06)

Matching candidates across elections

- For each election in each constituency, winners and runners-up are matched to those who contest in the next election
 - Initially done via fuzzy matching algorithm that accounts for different spellings.
 - Matches are manually checked
- Starting in 2004, matching is done at the state-level owing to renaming and renumbering of constituencies. This should (if anything) bias results *upward* (i.e., toward zero) on recontesting post-disclosure. (Pre-disclosure matching at the state-level is infeasible due to fewer matching variables)

Key variables in the analysis

- MLA-time variables
 - $Rerun_{ist}$ – candidate i at time t also chooses to stand for reelection at $t+1$
 - $Incumbent_{ist}$ – candidate i was elected to office at election $t-1$; generated from ECI data
 - *Criminal Record, Years of Education* – only available post-disclosure
- District-time variables
 - GDP Growth [from Indicus] – will discuss in greater detail when we get to those results
- State-time variable - $Disclosure_{st}$
 - Candidates who run for office at t will be required to disclose asset **growth** at $t+1$
 - *Disclosure* is constructed to sync with the Rerun decision, and captures concerns about revealing post-disclosure asset *growth*

Disclosure and political outcomes

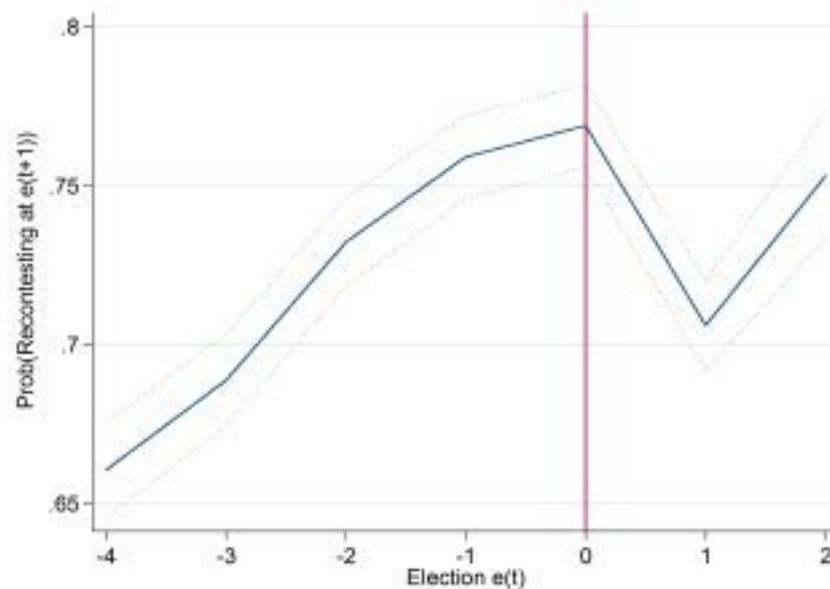
- Background and data
- Empirical strategy
- Results

Empirical strategy/preview

"Just Prior Event" States			"Just Post Event" States		
Election	Avg. year	Prob(Recont. at t+1)	Election e(t)	Avg. year	Prob(Recont. at t+1)
e(-5)	1981.6	0.740	e(-4)	1981.1	0.569
e(-4)	1985.3	0.772	e(-3)	1984.8	0.637
e(-3)	1989.1	0.759	e(-2)	1989.4	0.769
e(-2)	1993.0	0.749	e(-1)	1993.9	0.741
e(-1)	1997.2	0.819	e(0)	1998.7	0.786
e(0)	2002.2	0.834	e(1)	2003.6	0.669
e(1)	2007.2	0.779	e(2)	2008.5	0.758
e(2)	2012.2	n/a	e(3)	2013.5	n/a

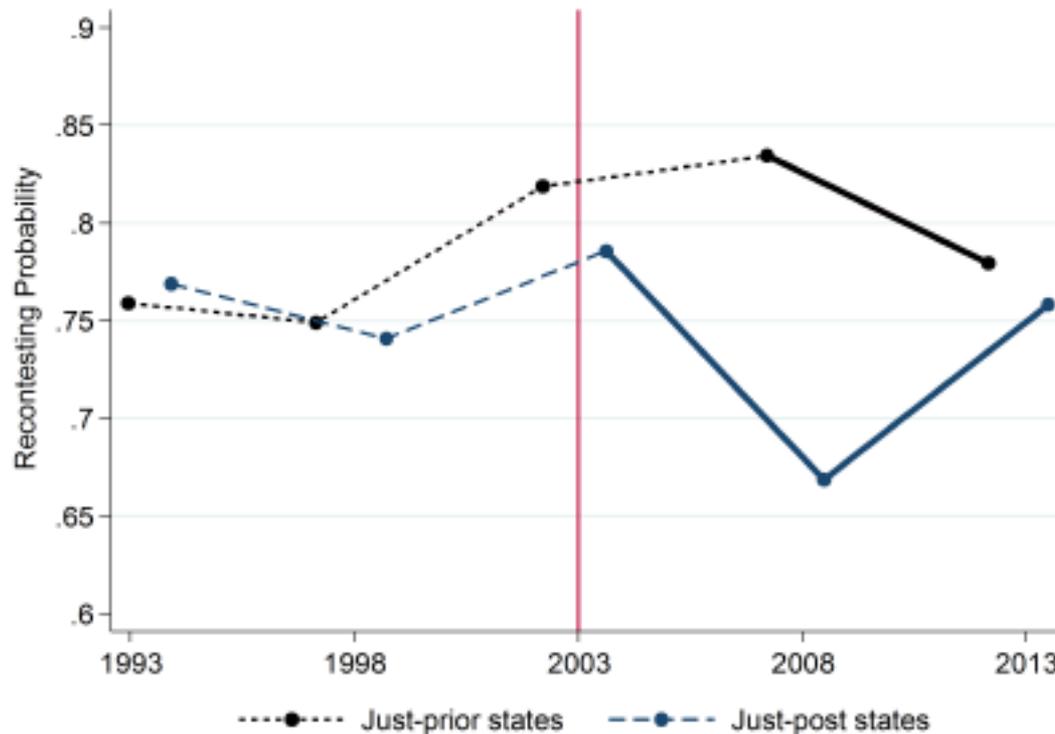
Notes: e(1) is the election immediately post-disclosure;
e(0) the election immediately pre-disclosure, etc
Recontesting probability

Empirical strategy/preview



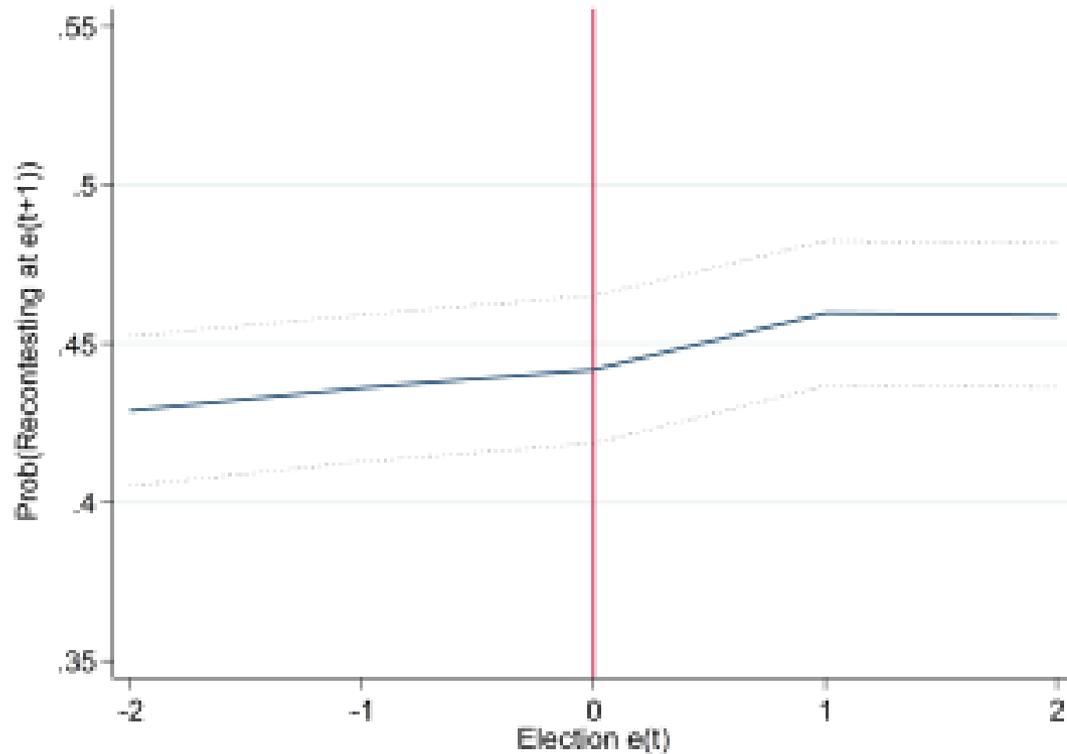
Full sample, “election” time

Empirical strategy/preview



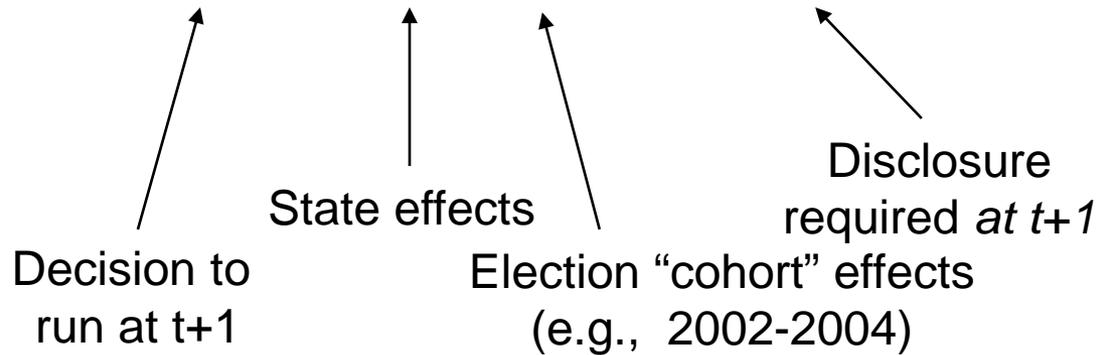
Just-prior and just-post states, calendar time

Disclosure and recontesting of runners-up



Empirical strategy

$$Rerun_{ist} = \alpha_s + \gamma_t + \beta Disclosure_{st} + \delta' Controls_{ist} + \epsilon_{ist}$$



Results

- Rerun rates
- Incumbency (dis)advantage
- [Incumbency advantage and past performance]

Disclosure and recontesting of winning candidates

Variables	(1)	(2)	(3)	(4)	(5)	(6)
	RunNext					
Disclosure	-0.166*** (0.040)	-0.132*** (0.046)	-0.135*** (0.045)	-0.139*** (0.045)	-0.182*** (0.050)	-0.121** (0.047)
Female			-0.057*** (0.019)	-0.054*** (0.019)		
Margin			0.048 (0.032)	0.064* (0.036)		
PriorRunner			0.054*** (0.015)	0.052*** (0.016)		
Incumbent			0.042*** (0.013)	0.043*** (0.013)		
SC/ST Constituency				-0.013 (0.009)		
No. Candidates in AC				-0.001 (0.001)		
Voter Turnout in AC				0.118** (0.050)		
log(AC Electorate)				0.034** (0.014)		
Observations	18,195	18,195	17,584	17,584	127	127
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	No	Yes	Yes	Yes	No	Yes
R-squared	0.024	0.04	0.051	0.052	0.229	0.582

State-year aggregates

Subsample of 2003 election states

Variables	(1)	(2)	(3) RunNext	(4)	(5)
Disclosure	-0.199*** (0.035)	-0.127* (0.066)	-0.134** (0.066)	-0.134** (0.066)	-0.135** (0.062)
Female			0.006 (0.015)	0.008 (0.015)	0.009 (0.014)
Margin			0.033 (0.108)	0.048 (0.109)	0.051 (0.105)
PriorRunner			0.054*** (0.017)	0.054*** (0.017)	0.054*** (0.018)
Incumbent			0.043** (0.020)	0.043** (0.020)	0.044** (0.020)
SC/ST Constituency				-0.040*** (0.007)	-0.041*** (0.012)
No. Candidates in AC				0 (0.001)	-0.001 (0.001)
Voter Turnout in AC					-0.034 (0.125)
log(AC Electorate)					0.073*** (0.018)
Observations	4,070	4,070	3,954	3,954	3,954
Time FE	Yes	Yes	Yes	Yes	Yes
State FE	No	Yes	Yes	Yes	Yes
R-squared	0.017	0.03	0.041	0.043	0.044

One other (perhaps) intriguing observation: Corruption

Variables	(1)	(2)	(3)	(4)	(5)	(6)
	RunNext					
Disclosure	-0.133*** (0.047)	-0.126*** (0.044)	-0.130*** (0.050)	-0.149*** (0.052)	-0.119** (0.051)	-0.128** (0.050)
Disclosure*PopDev	0.059 (0.069)	0.047 (0.071)				
PopDev	-0.036 (0.031)	-0.018 (0.032)				
Disclosure*CorrIndex			-0.044** (0.020)	-0.046** (0.018)		
Disclosure*BIMARU					-0.046* (0.024)	-0.039* (0.021)
Female		-0.054*** (0.018)		-0.050** (0.021)		-0.054*** (0.019)
Margin		0.070* (0.038)		0.087** (0.043)		0.064* (0.037)
PriorRunner		0.057*** (0.014)		0.054*** (0.018)		0.052*** (0.016)
Incumbent		0.041*** (0.014)		0.047*** (0.015)		0.043*** (0.013)
SC/ST Constituency		-0.003 (0.010)		-0.014 (0.010)		-0.013 (0.009)
No. Candidates in AC		-0.001 (0.001)		-0.001* (0.001)		-0.001 (0.001)
Voter Turnout in AC		0.208*** (0.074)		0.137** (0.057)		0.120** (0.055)
log(AC Electorate)		0.033** (0.016)		0.044** (0.019)		0.035** (0.014)
Observations	15,769	15,292	15,633	15,330	18,195	17,584
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.043	0.056	0.032	0.047	0.04	0.052

Incumbency and disclosure

- Results thus far: would-be incumbents self-select out of running for office at much higher rates post-disclosure (relative to runners-up)
- Is there “positive” selection among incumbents that choose to recontest?
- We study the electoral success of incumbents relative to runners-up, *in constituencies where both choose to recontest*

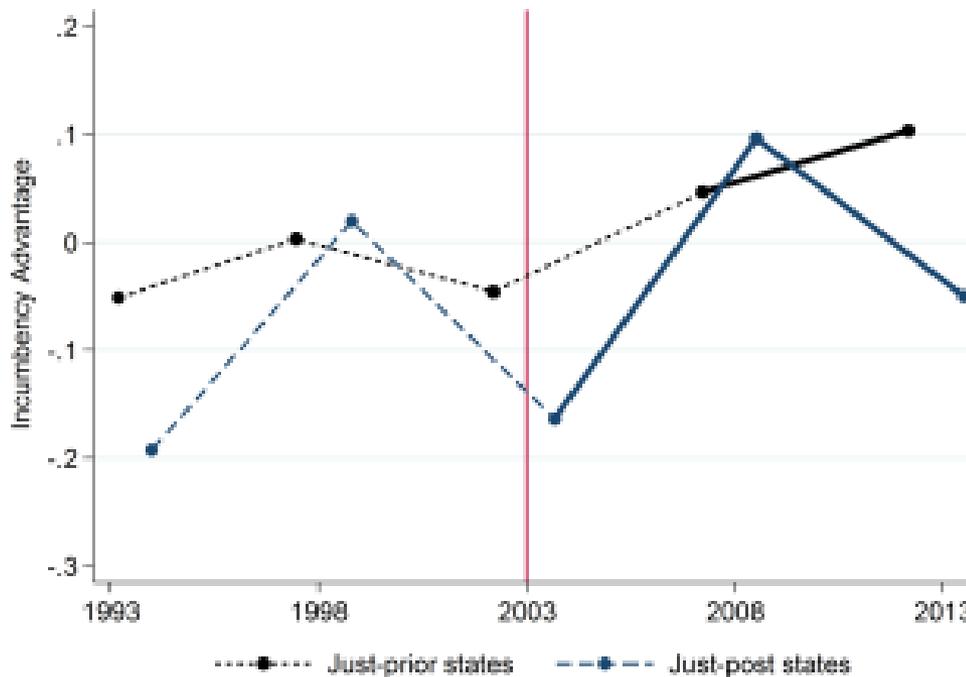
Disclosure and incumbency (dis)advantage

Change in
Pre-announcement
disadvantage
disadvantage

Variables	(1)	(2)	(3)	(4)	(5)
	<i>Winner_{t+1}</i>				
Disclosure*Winner	0.101*** (0.032)	0.108*** (0.031)	0.112*** (0.033)	0.073* (0.044)	0.068* (0.036)
Winner	-0.057* (0.032)	-0.060* (0.032)	-0.179*** (0.032)	-0.225*** (0.035)	-0.228*** (0.028)
Disclosure	-0.066** (0.030)	-0.074** (0.033)	-0.080** (0.036)	-0.027 (0.037)	-0.009 (0.033)
Female		-0.027* (0.016)	-0.025 (0.021)	-0.006 (0.043)	-0.02 (0.051)
PriorRunner		-0.015 (0.014)	-0.026 (0.021)	-0.004 (0.024)	-0.016 (0.026)
Incumbent		0.056*** (0.020)	0.055** (0.022)	0.037 (0.023)	0.033 (0.024)
SC/ST Constituency		-0.021*** (0.008)	-0.027*** (0.010)	-0.021 (0.016)	-0.029 (0.018)
No. Candidates in AC		-0.001 (0.001)	-0.002* (0.001)	-0.002** (0.001)	-0.002** (0.001)
Voter Turnout in AC		0.105*** (0.026)	0.110*** (0.040)	0.063 (0.044)	0.028 (0.081)
log(AC Electorate)		0.004 (0.027)	-0.001 (0.036)	0.005 (0.037)	0.008 (0.034)
Close Elections:			Margin ≤ 10	Margin ≤ 5	Margin ≤ 3
Observations	11,602	11,282	6,828	4,064	2,570
Time FE	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes
R-squared	0.007	0.013	0.035	0.055	0.057

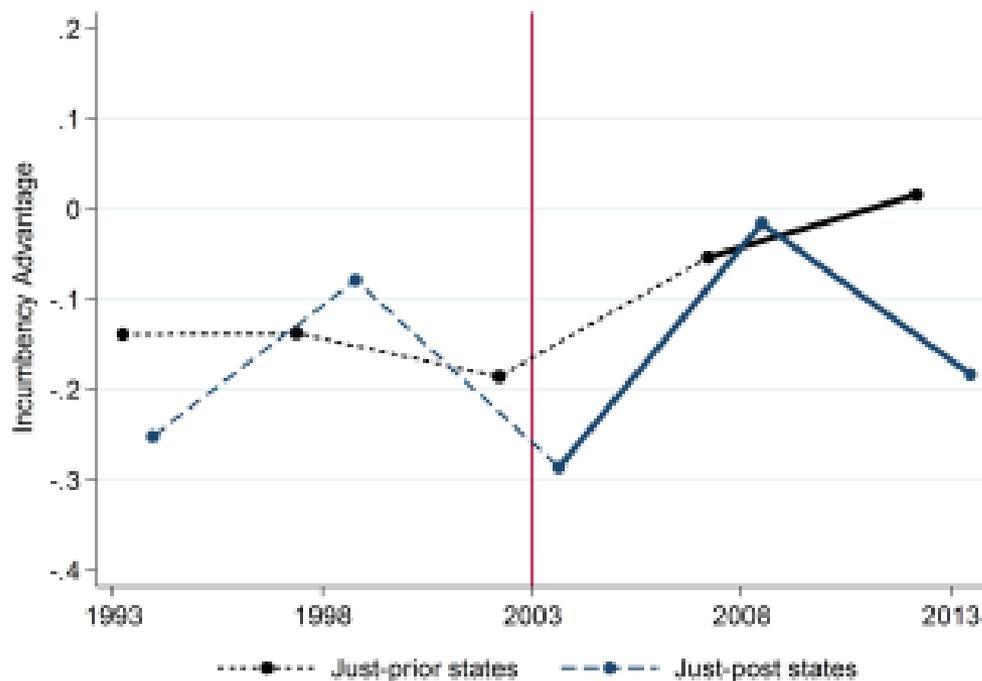
Timing of change in incumbency disadvantage

Panel A: Incumbency Advantage



Timing of change in incumbency disadvantage

Panel B: Incumbency Advantage - $Margin \leq 10\%$ Subsample



GDP growth matters less once disclosures are available

Variables	<i>Average growth</i>			<i>Election-year growth</i>		
	(1)	(2)	(3)	(4)	(5)	(6)
	<i>Winner_{t+1}</i>			<i>Winner_{t+1}</i>		
GDPGrowth	0.428**	0.584***	0.573***	0.328***	0.429***	0.409***
	(0.185)	(0.212)	(0.177)	(0.104)	(0.145)	(0.127)
Disclosure*GDPGrowth		-0.592*	-0.696**		-0.396*	-0.431*
		(0.337)	(0.335)		(0.236)	(0.255)
Disclosure		-0.016	-0.017		-0.022	-0.028
		(0.045)	(0.044)		(0.038)	(0.038)

Summary and Conclusions

- We provide the first (that we know of) assessment of disclosure rules on the selection – both self- and by voters – of politicians
- Main findings are that disclosure leads to:
 - Drop in the number of office-holders choosing to recontest
 - Weakened incumbency disadvantage
- Perhaps reason for tentative optimism (complementing that of Banerjee et al) that information makes a difference!