

# CLASS JOURNAL

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PSC 336

SYRACUSE UNIVERSITY

**MONEY AND**

**POLITICS**

**POLITICIANS AND VOTERS, PART 1**

# EXAM

- **Next week Tuesday (March 5): Exam 1**
- **Possible exam questions will be posted on BB (under Assignments) this afternoon**
- **I'll randomly pick 2 of them**
  - **You have to answer both**
- **Can bring one letter-size cheat sheet (front and back)**
  - **What you put on it is up to you, as long as you yourself prepare it (we'll collect it)**

# STUFF

- **March 21: First part of country research report due**
  - **Talk to me and/or Aysenur**

# WHERE WE ARE

- **Who is involved in money and politics, why, and how?**
  - **Bureaucrats**
  - **Special interests**
  - **Lobbyists**
  - **Politicians**
  - **Voters**

# POLITICIANS

- **Overall questions:**
  - **Why do politicians want money in politics?**
  - **In what ways do they take money and what do they do with it?**
  - **What effect does it have on voters?**

# POLITICIANS

- **What do politicians want?**

# POLITICIANS

- **Office-seeking, reelection-seeking**
  - **Mayhew (1974): Politicians as "single-minded seekers of reelection"**
- **Financial motivation**



# POLITICIANS

- **Money in politics and personal enrichment**
- **Money in politics and campaign spending**

# POLITICIANS

- **Comparing the strength of the two motivations**
- **For how much money are politicians willing to give up their seat in office?**

# POLITICIANS

- **Pre-1980: US politicians can keep leftover campaign money for their own personal use**
- **Politicians who came into office 1980 or later cannot do this anymore**
- **1992: Another law passed, forbidding the use of campaign money for personal purposes for those in office before 1980 as well**
  - **Effective 1993**

# POLITICIANS

- **In 1992, many legislators faced a choice**
  - **Run for reelection, lose leftover campaign funds**
  - **Retire, use leftover campaign funds for personal purposes**

# POLITICIANS

## **Research Paper No. 1601**

**Buying the Bums Out:  
What's the Dollar Value of a Seat in Congress?**

**Tim Groseclose  
Jeff Milyo**

- **Some legislators have a lot of campaign money left (millions)**
- **Others have much less**
- **Analysis: What's the threshold at which legislators decide to retire?**

# POLITICIANS

- On average, takes about \$3 million (\$5.6 million in today's dollars) for a Senator to voluntarily give up seat
- Threshold depends on age and personal wealth

Table 3

The Effects of Age and Wealth on the Value of a Seat

Wealth of Member	Age of the Member		
	41	53	68
\$50K	\$1.6M	\$0.8M	\$0.3M
\$365K	\$6.0M	\$3.3M	\$1.4M
\$2,000K	\$20.0M	\$11.8M	\$5.4M

The cell entries are estimates of the dollar value of a seat for a member of the U.S. Senate.

# POLITICIANS

- **Money in politics and personal enrichment**
- **Money in politics and campaign spending**

# POLITICIANS

- **Money in politics and personal enrichment**
- **Money in politics and campaign spending**



# POLITICIANS

- **What options do politicians have to enrich themselves?**

# POLITICIANS

- **What options do politicians have to enrich themselves?**
  - **They are businessmen and become politicians and favor their own business**
  - **They are politicians and get nice jobs as a consequence**
  - **They take bribes or steal while in office**

# BUSINESSMAN POLITICIANS

- **So far: Businesses (and wealthy individuals) spend money on politicians**
  - **Principal-agent problem: may be difficult to get them to do what you want them to do**
- **Possible solution: Become a politician yourself**

# BUSINESSMAN POLITICIANS

- **Why would being a politician *not* have benefits for one's business? Why would it?**

# BUSINESSMAN POLITICIANS

- **How can we tell whether businessman politicians benefit from their office?**

# BUSINESSMAN POLITICIANS

- **Want to compare performance of firms where owner is politician to performance of firms where owner is not politician**
- **Problem self-selection bias: Firms where owner runs for office might be very different from firms where owner does not run**
  - **e.g. owners who are more respected in their community might be more likely to run**
  - **Those firms might be more successful irrespective of whether owner is politician or not**

# BUSINESSMAN POLITICIANS

- **Limit attention to business owners who run for office**
  - **Some win, some lose**
  - **Better, but still self-selection bias: e.g. owners who are more respected in their community might be more likely to win**
    - **Those firms might be more successful irrespective of whether owner is politician or not (because their owner is more respected)**

# BUSINESSMAN POLITICIANS

- **“Regression discontinuity design”**
- **Don't look at all businessman candidates who ran and compare winners to losers**
- **Instead, only look at those who were in close elections**
  - **Winning/losing margin of a few percentage points**



# BUSINESSMAN POLITICIANS

- **Candidates who win by 20% are very different from those who lose by 20%**
  - **e.g. more skilled, more respected**
  - **If Syracuse beats another team by 20 points, they were almost surely the better team**

# BUSINESSMAN POLITICIANS

- **Candidates who win by 0.2% are not very different from those who lose by 0.2%**
  - **Former were lucky, latter were not**
  - **If another team beats Syracuse by 1 point with a buzzer beater, the teams were probably evenly matched, one team got lucky**

# BUSINESSMAN POLITICIANS

- **Very close election—almost like an experiment: Businessmen who win office are on average the same as businessman who run but don't win office on everything, except some win office and others do not**

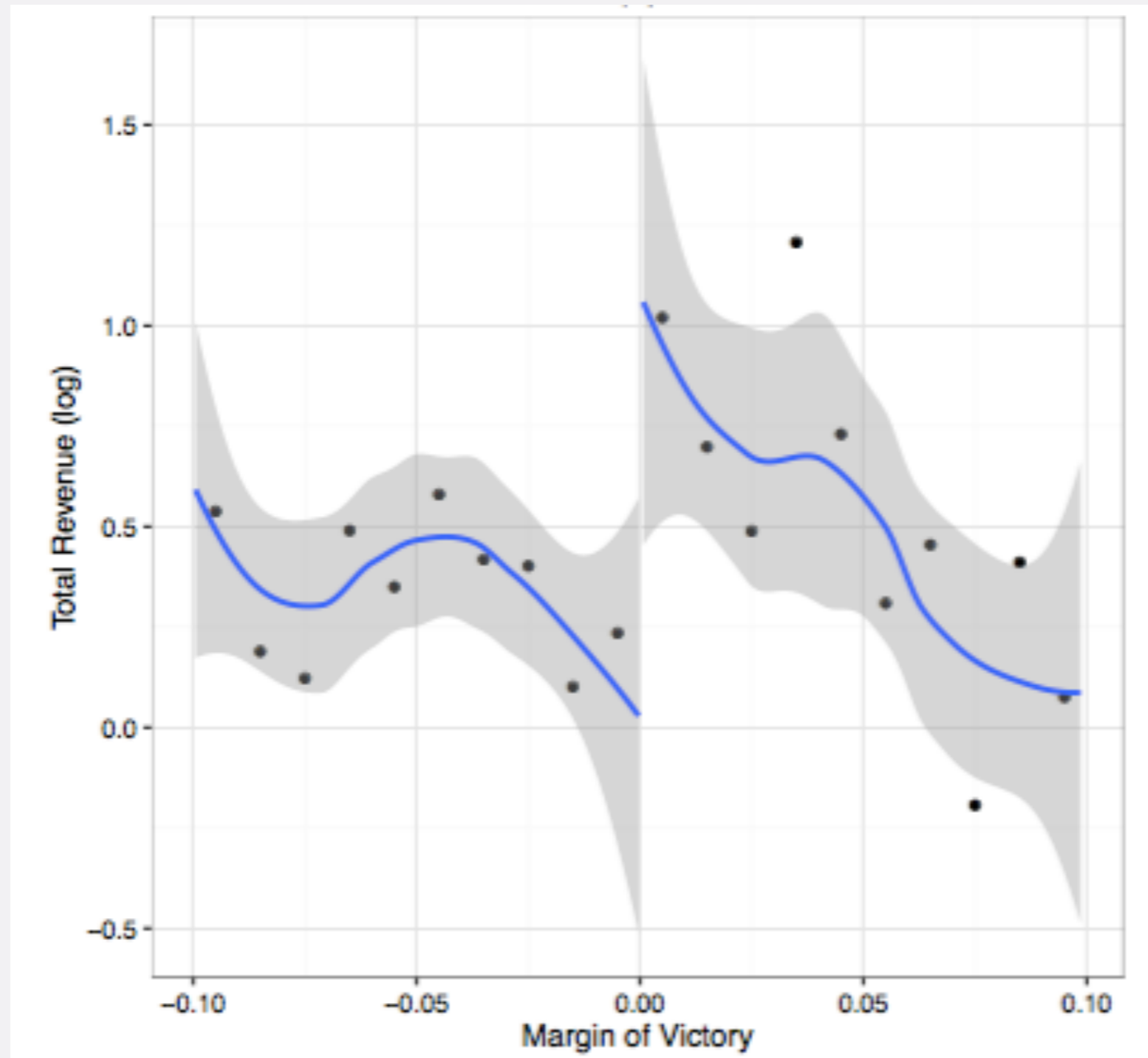
# BUSINESSMAN POLITICIANS

## **Businesspeople in Elected Office: Identifying Private Benefits from Firm-Level Returns**

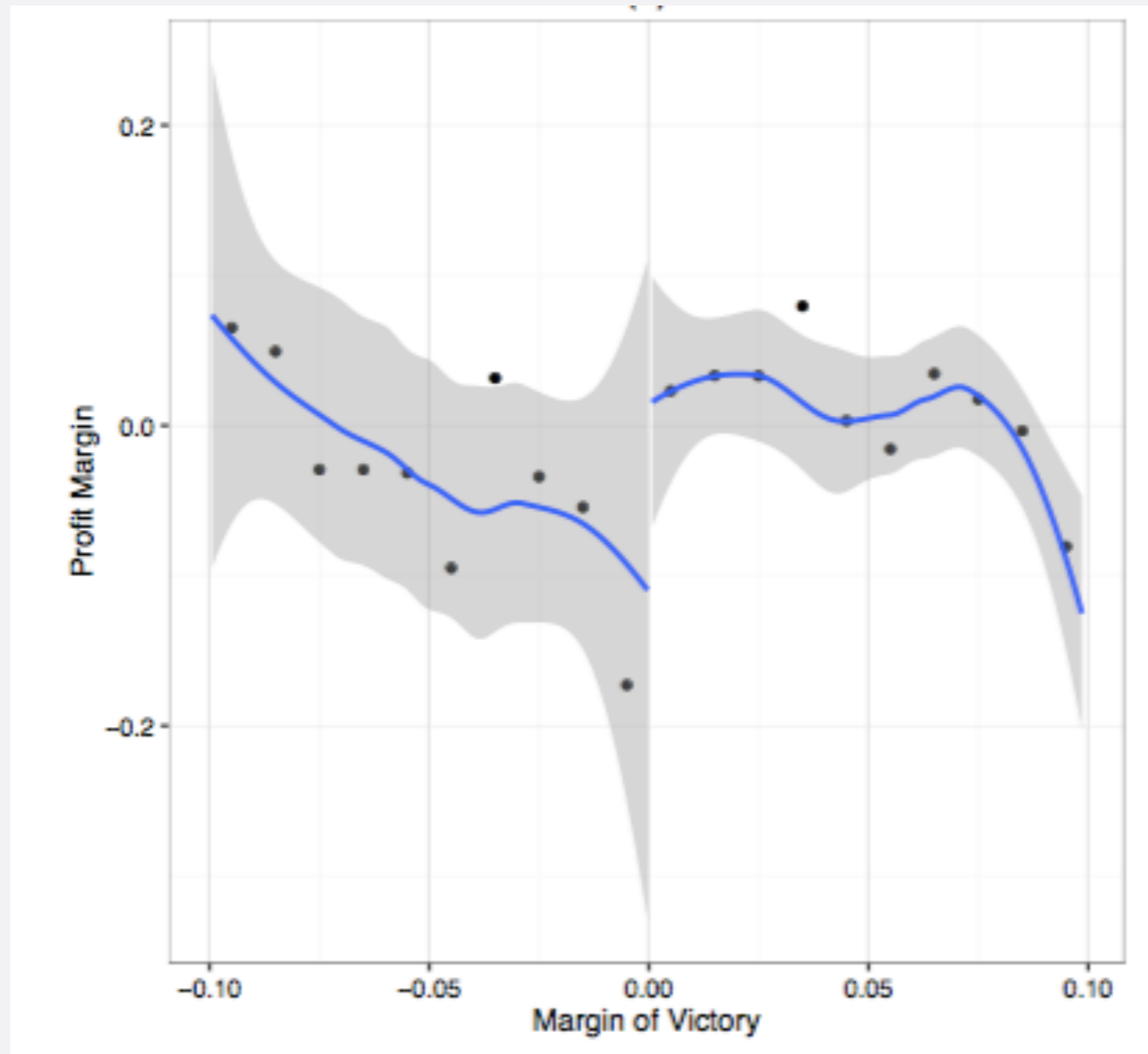
DAVID SZAKONYI *George Washington University*

- **Reading: Compare firm performance of firms owned by businessmen in Russia who run for regional office and narrowly won to firms of businessmen who ran and narrowly lost**

# BUSINESSMAN POLITICIANS



# BUSINESSMAN POLITICIANS



# BUSINESSMAN POLITICIANS

- **In what way do businessman politicians benefit?**

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  - **opens door to get more public procurement contracts**
  - **get tax breaks**



# BUSINESSMAN POLITICIANS

- **In what way do businessman politicians benefit?**
  - **political connections reduce uncertainty among potential creditors**
  - **opens door to get more public procurement contracts**
  - **get tax breaks**
- **At least in Russia, more public procurement is the mechanism**

# BUSINESSMAN POLITICIANS

- **Do you think this work everywhere?**

# ANOTHER WAY

- **Politicians get nice jobs because they are politicians**



# REVOLVING DOOR OUT OF POLITICS...



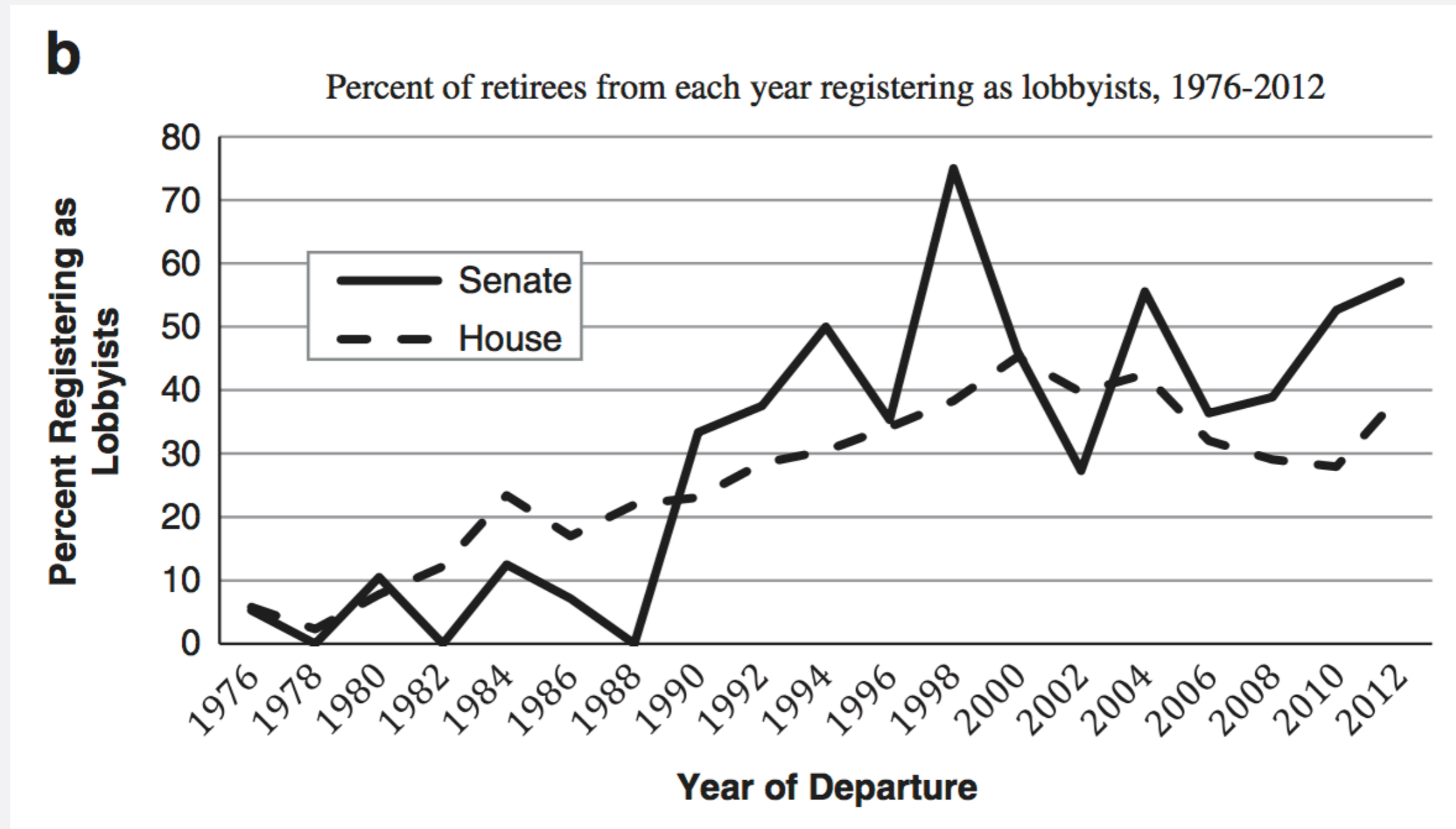
- **Dick Gephardt**
- **US House of Representatives, 1977-2005**
- **2005: Senior Council, DLA Piper**
- **2007: Gephardt Government Affairs Group**
- **2010: Revenue of \$6.6 million**
- **Some clients: Goldman Sachs, Boeing, Visa**

# REVOLVING DOOR OUT OF POLITICS...



- **Billy Tauzin**
- **US House of Representatives, 1980-2005**
- **2005: Head of Pharmaceutical Research and Manufacturers of America (PhRMA)**
- **2010: Payment of \$11.6 million from PhRMA**

# REVOLVING DOOR OUT OF POLITICS...



- Source: Lazarus et al. (2016)

# REVOLVING DOOR OUT OF POLITICS...

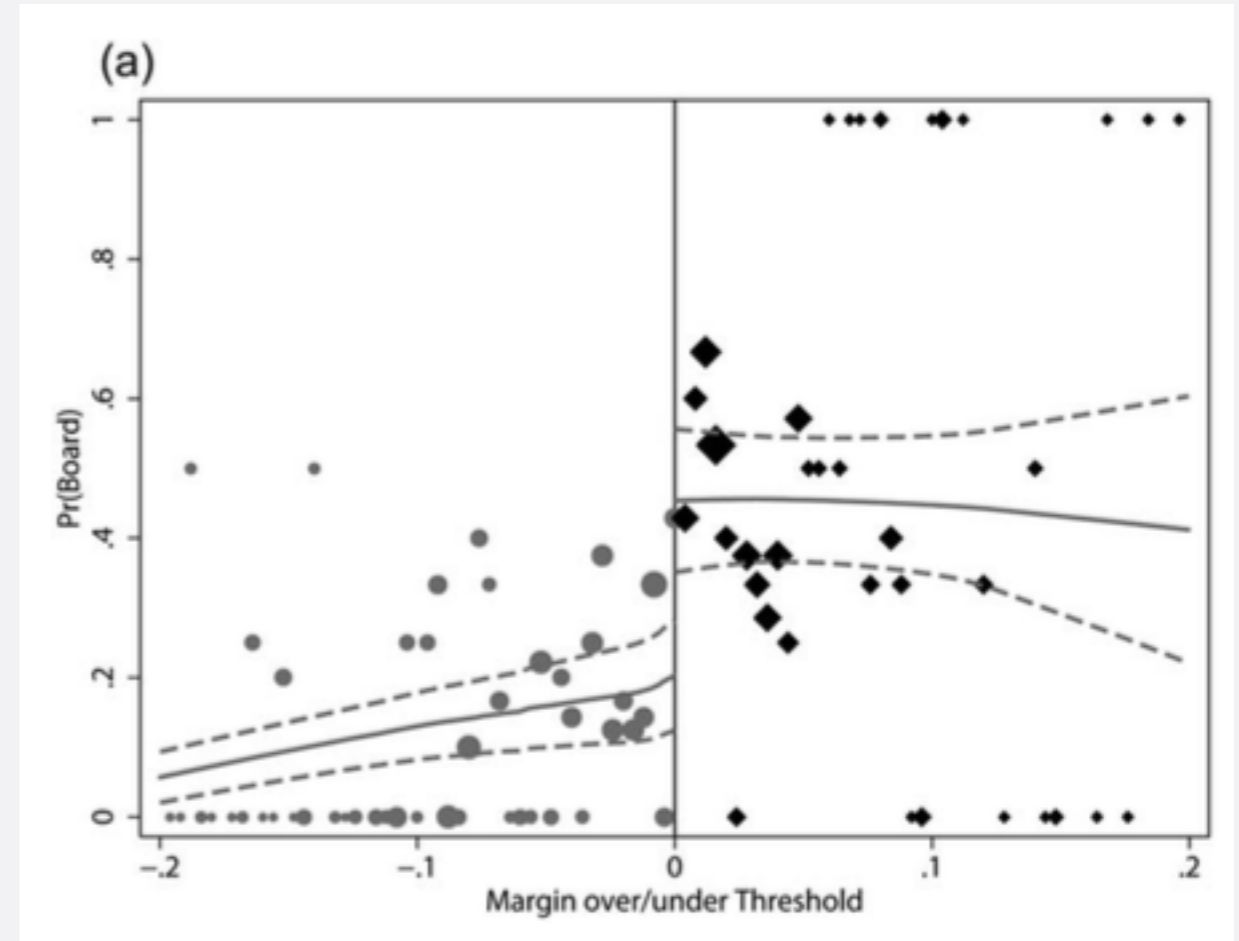
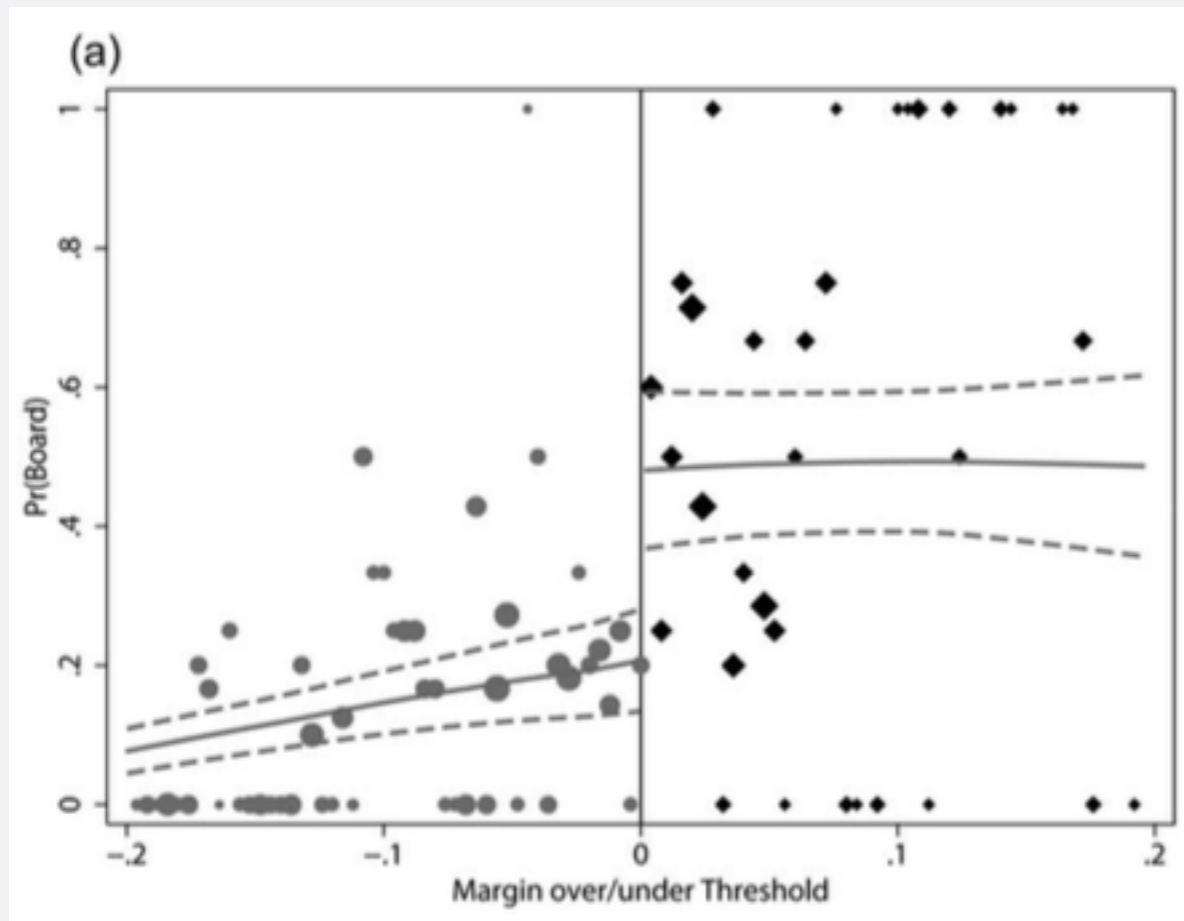
- **Other revolving door jobs:**

Table 1. Senators and Governors who Served on Boards

Outcome	Senators			Governors		
	D	R	All	D	R	All
<i>N</i>	24	28	52	25	39	66
Compensation (2011)	\$503,545	\$440,852	\$472,200	\$208,258	\$332,708	\$294,063
Boards served upon (ever)	3.333	2.964	3.135	2.520	3.000	2.833
Boards per year	1.733	1.513	1.624	1.213	1.365	1.334

- **Almost 50% of former Senators sit on a board of directors of at least one publicly traded firm**
- **Source: Palmer and Schneer (2016)**

# CONSEQUENCES FOR POLITICIANS



- Being Senator/Governor leads to increase of, on average, 1/2 board of directors seats
- Average salary/year for a seat: ~\$250,000
- So value of ~\$125,000/year



# NOT JUST IN THE U.S.



- **Gerhard Schröder**
- **Former German chancellor**
- **September 2005: Signs agreement to build controversial gas pipeline between Russia and Germany**
- **November 2005: Resigns as chancellor**
- **17 days later: Accepts position as board chairman of the consortium building the pipeline**

# NOT JUST IN THE U.S.



- **Alan Milburn**
- **Former U.K. minister of health, member of parliament (until 2010)**
- **Afterwards: jobs with several private health companies, chair of Health Industry Oversight Board of PricewaterhouseCoopers**

# OTHER COUNTRY

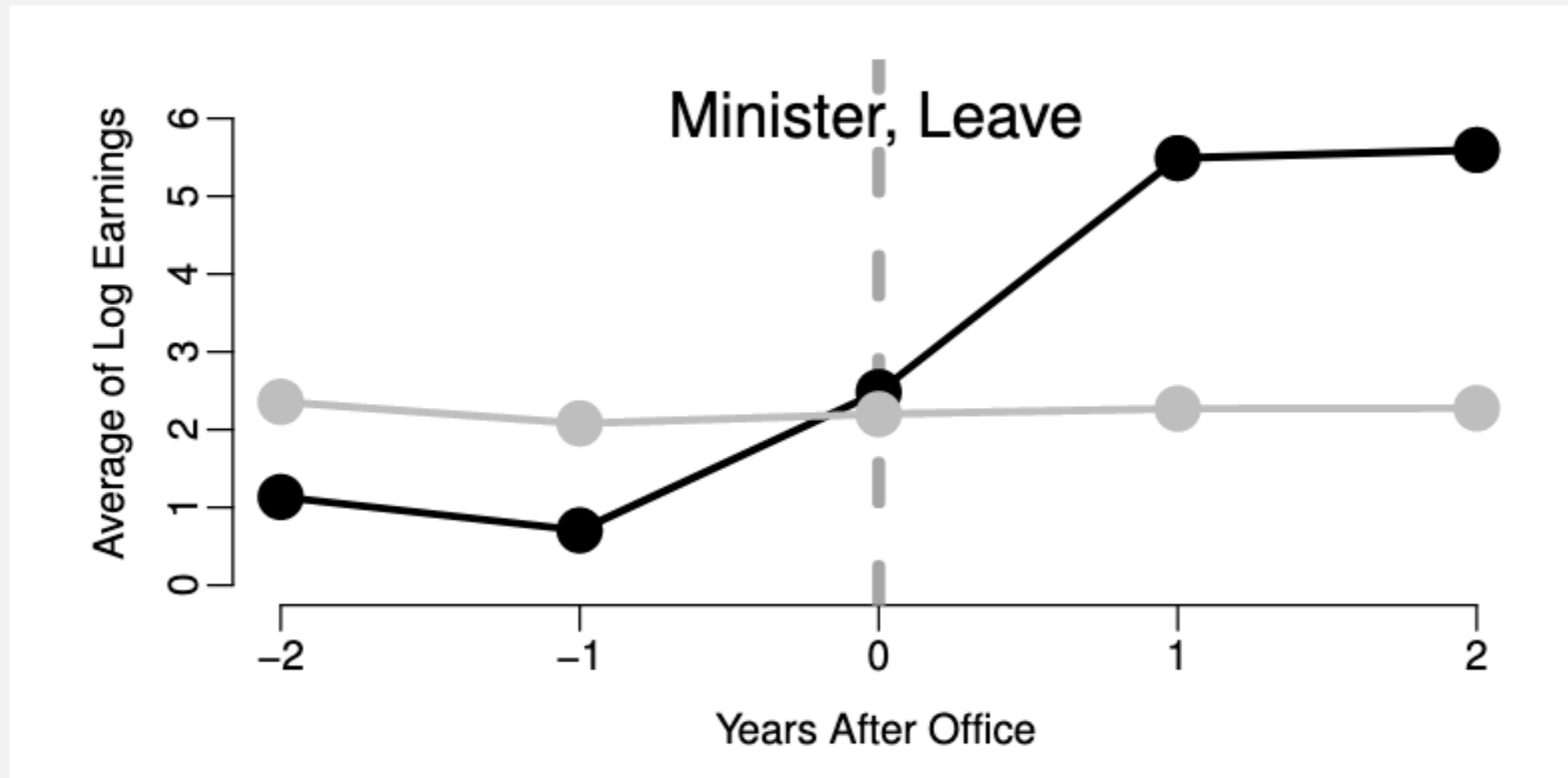
## Parliamentary Positions and Politicians' Private Sector Earnings: Evidence from the UK House of Commons

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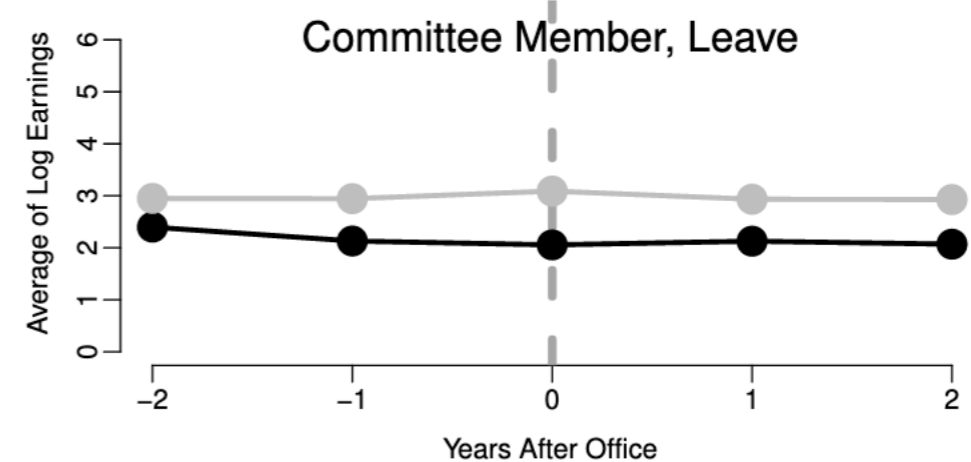
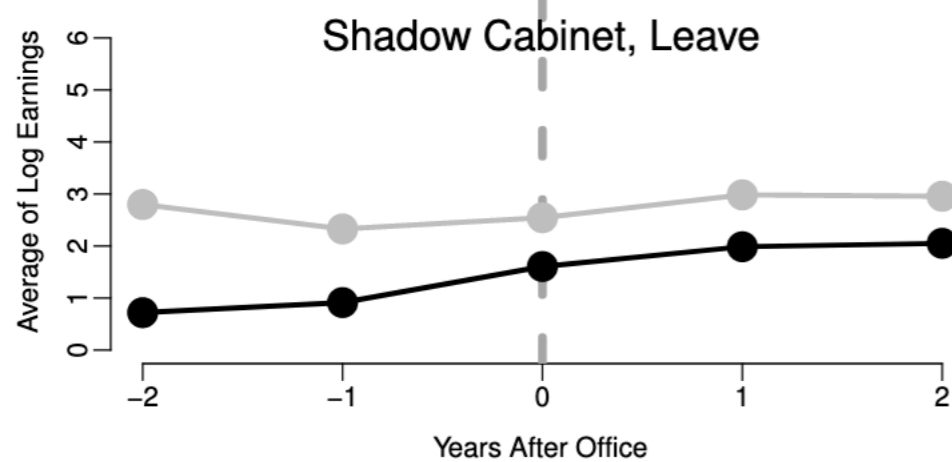
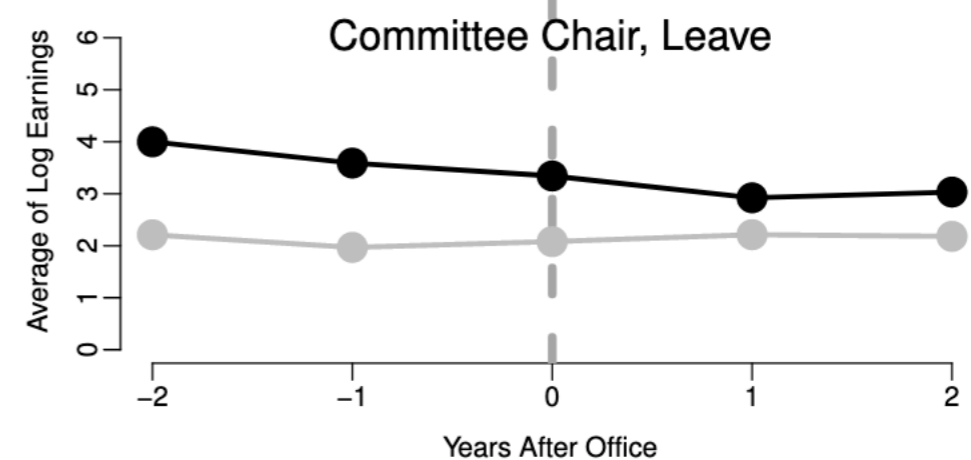
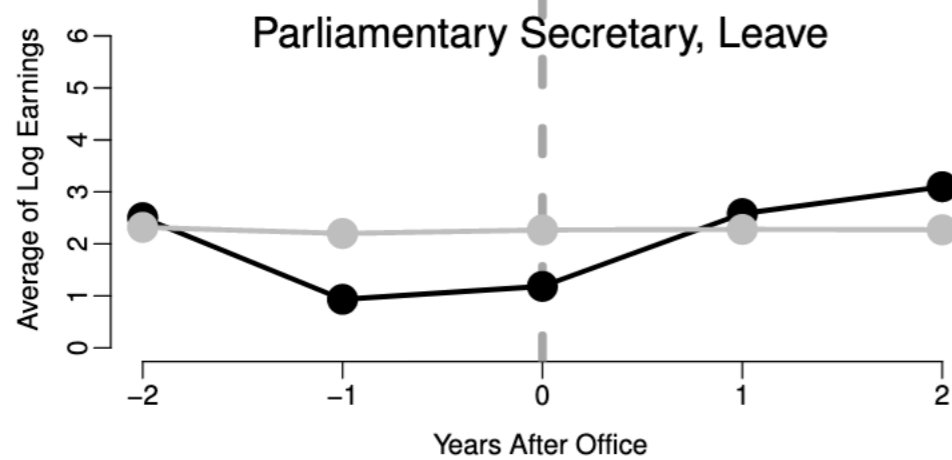
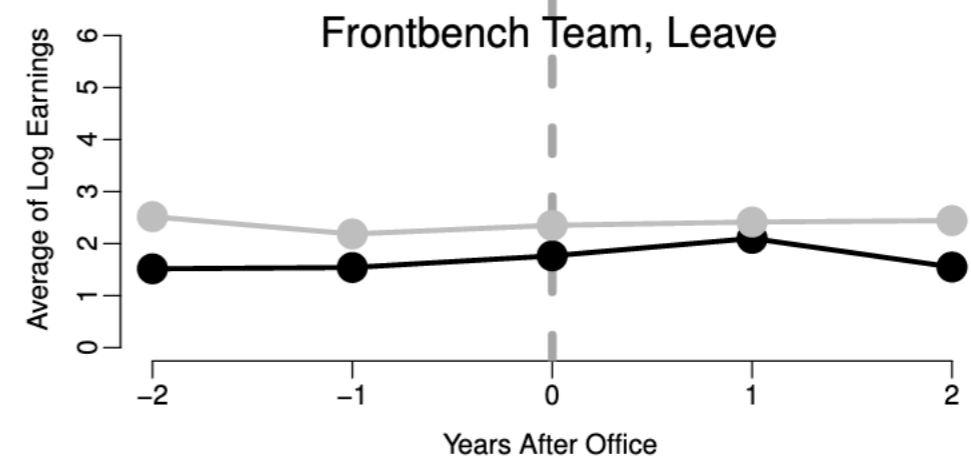
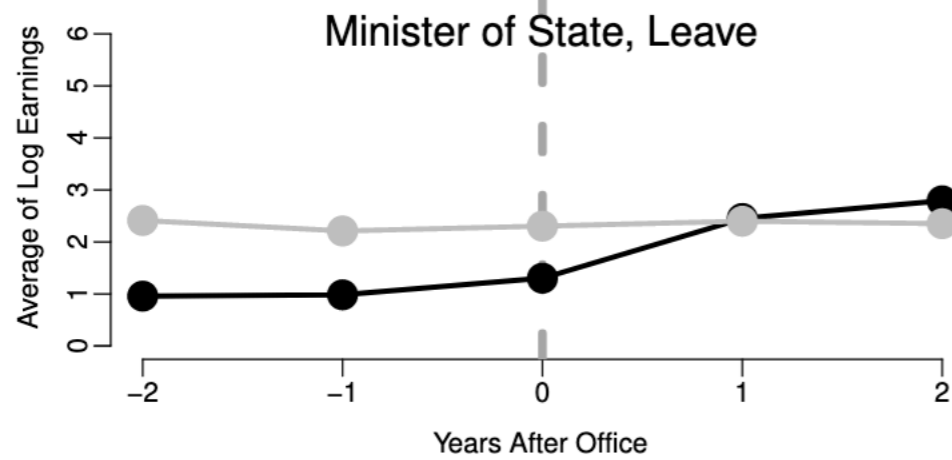
**Simon Weschle**, Syracuse University

- **United Kingdom: What happens to politicians private sector incomes once they leave a powerful position?**

# UNITED KINGDOM



# UNITED KINGDOM



# WHY?

- **What could former politicians bring to companies that hire them?**

# WHY?

- **What could former politicians bring to companies that hire them?**
  - **Expertise**
  - **Connections**
  - **Favorable policy while still in office**
- **Little evidence that tells us which one is how important**

# KEEPING SCORE

- **Businessmen become politicians**
  - **Has positive effect on business profits, at least in countries with weaker rule of law**
- **Politicians get a job after leaving office**
  - **Common and lucrative, even in countries with strong rule of law**



# FINALLY...



- **Akis Tsochatzopoulos**
- **Former defense minister of Greece**
- **Oversaw purchase of Russian missiles, German submarines**
- **Received more than 50 million Euro in bribes**
- **Laundered through offshore companies, used to buy real estate**

# ENRICHMENT IN OFFICE

- **First problem: How can we get any data on this?**

# WEALTH DISCLOSURE

**भारतीय धैर न्यायिक**

**दस रुपये** **TEN RUPEES**

**रु.10** **Rs**

**INDIA NON JUDICIAL**

हरियाणा HARYANA

KATLAH

APPOINTED BY GOVT. OF INDIA

FORM 26  
(See rule 4A)

BEFORE THE RETURNING OFFICER FOR ELECTION TO HARYANA LEGISLATIVE GENERAL ELECTION 2014 FROM 87-BADHKAL CONSTITUENCY.

I, SEEMA TRIKHA wife of Shri. Ashwani Trikha aged about 47 years, resident of house no. 3F/163, NIT Faridabad, District Faridabad a candidate at the above election, do hereby solemnly affirm/state on oath as under:-

(1) I am a candidate set up by BHARATIYA JANTA PARTY.

(2) My name is enrolled in 87-Badhkal Vidhaan Sabha of Haryana State at Serial No 1091 in Part No. 32

(3) My contact telephone number(s) is 9891051557 and my e-mail id is seematrikha.bjp@gmail.com And my social media accounts is on Facebook by Name SeemaTrikha and maintaining a facebook page by the name : bjpseematrikhabadhkal-87 and

*Seema*

	construction etc.					
	Approximate current market value.	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
(iii)	Commercial Buildings (including apartments) - Location(s) - Survey numbers(s)	NIL	1. B:- 390-391,Nehru Ground First Floor,NIT Faridabad 2. Chamber No.361 (half share),District Court Faridabad.	Not Applicable	Not Applicable	Not Applicable
	Area (total measurement in sq.ft)	NIL	1.630 Sq.Ft 2.12X9 Sq.Ft.	Not Applicable	Not Applicable	Not Applicable
	Built-up Area (total measurement in sq.ft)	NIL	1.600 Sq.Ft 2.108Sq.Ft	Not Applicable	Not Applicable	Not Applicable
	Whether inherited property (Yes or No)	No	1.No 2. No	Not Applicable	Not Applicable	Not Applicable
	Date of purchase in case of self-acquired property.	NIL	1.29/11/2006 2. 30/03/2012	Not Applicable	Not Applicable	Not Applicable
	Cost of property (in case of purchase) at the time of purchase	NIL	1.Rs10Lacks 2.Rs1.25Lacks	Not Applicable	Not Applicable	Not Applicable
	Any investment on the property by way of development, construction,etc	Nil	1.Renovation,Furniture and fixture worth Approx Rs 3,00,000/- 2. Renovation, Furniture and fixture worth Approx Rs85,000/-	Not Applicable	Not Applicable	Not Applicable
	Approximate current market value.	NIL	1.Rs40,00,000/- 2.Rs3,50,000/-	Not Applicable	Not Applicable	Not Applicable
(iv)	Residential Buildings (including apartments): - Location(s) - Survey number(s)	NIL	1/4 <sup>th</sup> Share in built-up house property No.3F/163,NIT Faridabad, Value Rs55,00,000/-	Not Applicable	Not Applicable	Not Applicable
	Area(total measurement in sq.ft)	NIL	1/4 <sup>th</sup> Share measuring approx 525 Sq.Ft	Not Applicable	Not Applicable	Not Applicable
	Built up area (Total)	NIL	366 Sq. ft	Not	Not	Not

*Seema*

# WEALTH DISCLOSURE

- **In many countries, politicians are required to disclose their entire wealth**
  - e.g. India
  - All candidates for elections have to submit affidavit stating e.g. cash, all bank accounts, all stocks, all cars, all houses and buildings, all land, etc.
- **If politicians keep running for office, have to submit every few years**
  - Can look at how wealth develops over time

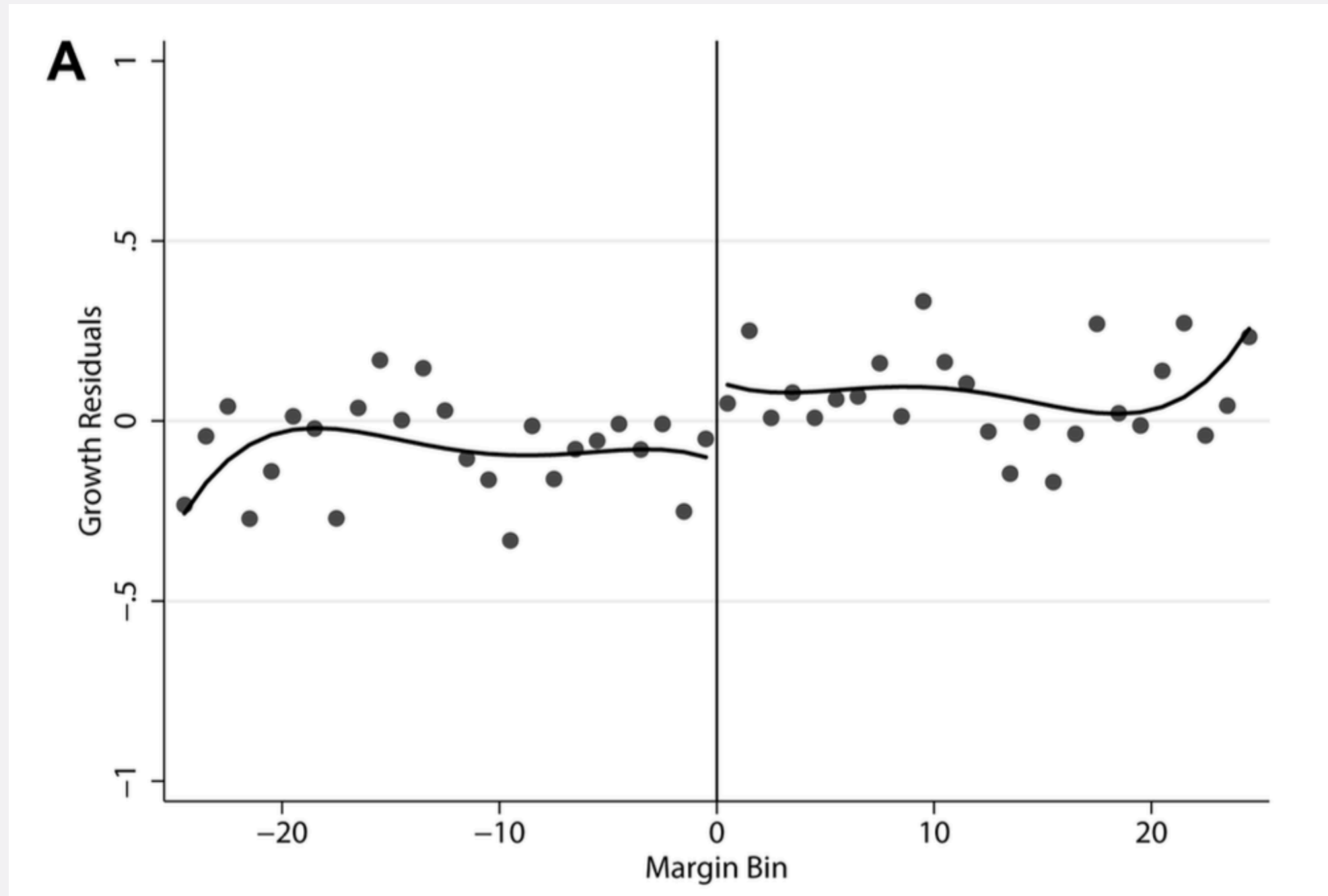
# WEALTH GROWTH

- **Problem: What do we compare politicians' wealth growth with?**
  - **e.g. if their wealth grows 30% in 5 years, how much of that is because they are politicians?**

# WEALTH GROWTH

- **Compare people who ran for office and won seat to people who ran for office and did not win seat**
  - **Focus on those who (almost randomly) win by small margin, compare to those who (almost randomly) lose by small margin**

# WEALTH GROWTH



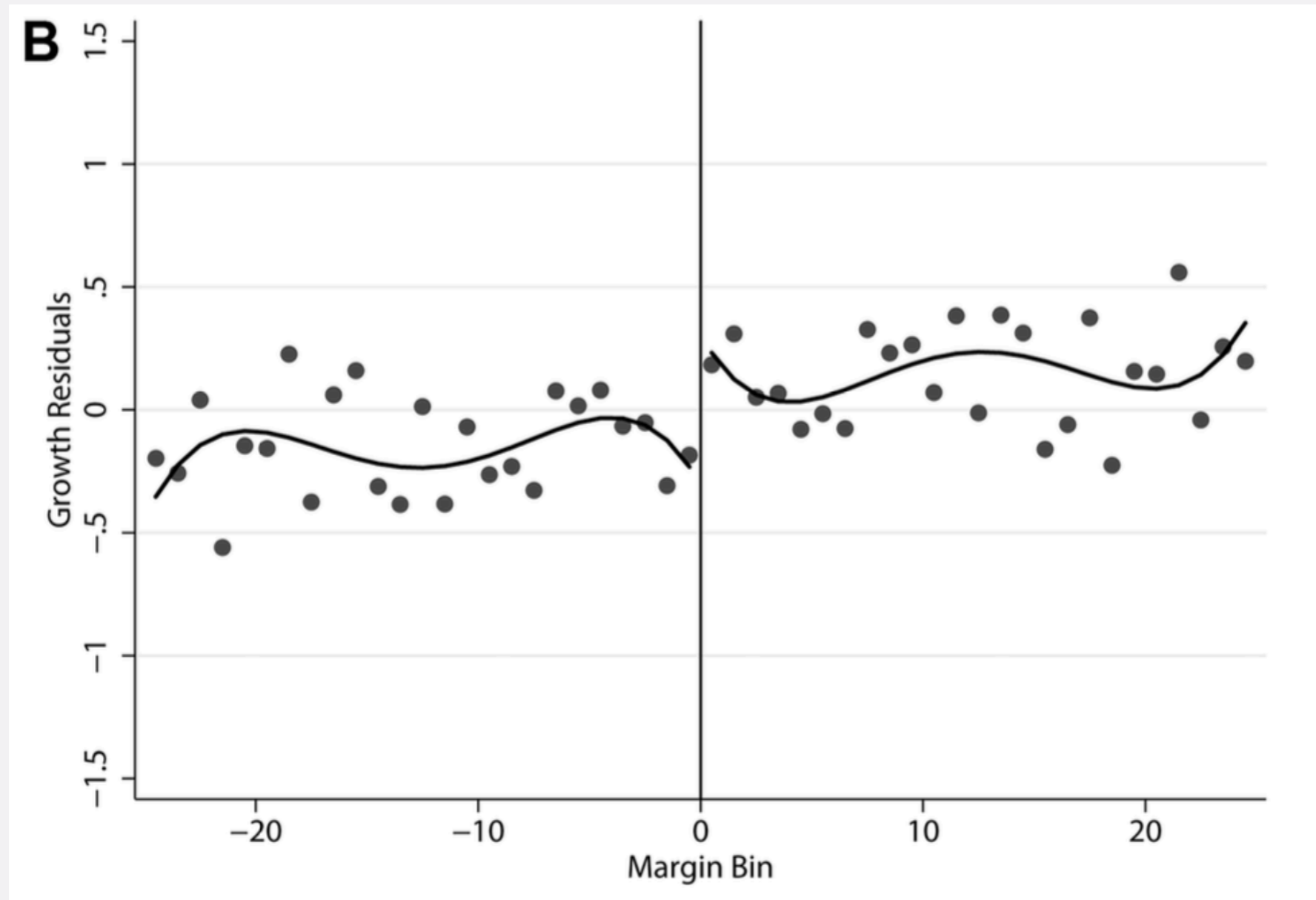
- Fisman et al (2014): *The Private Returns to Public Office*
- Those who win grow assets 3-5% per year more than those who lose

# WEALTH GROWTH

- **So there are higher returns to holding office in India**
- **Is this true for all politicians or only for some subset?**

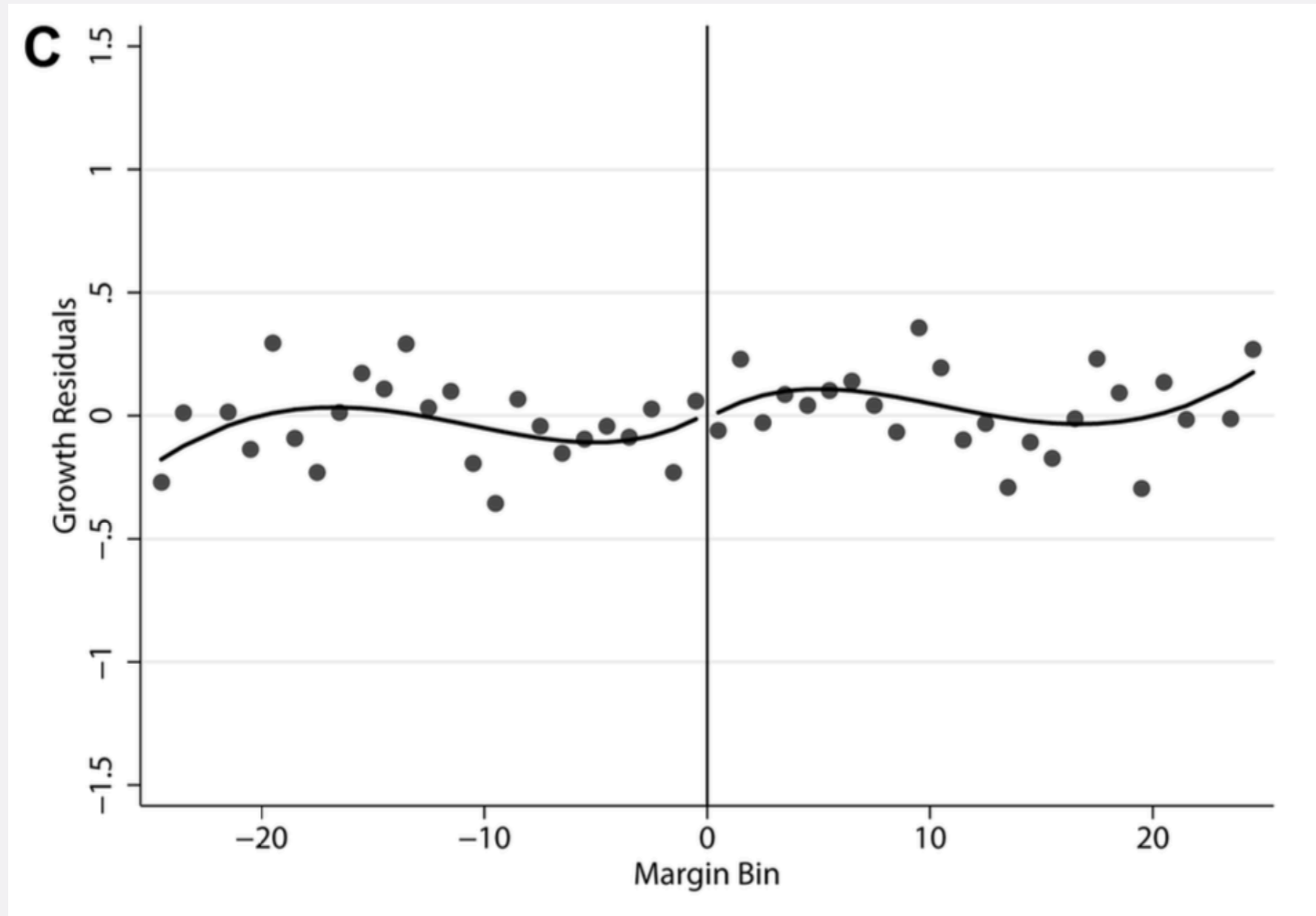


# WEALTH GROWTH



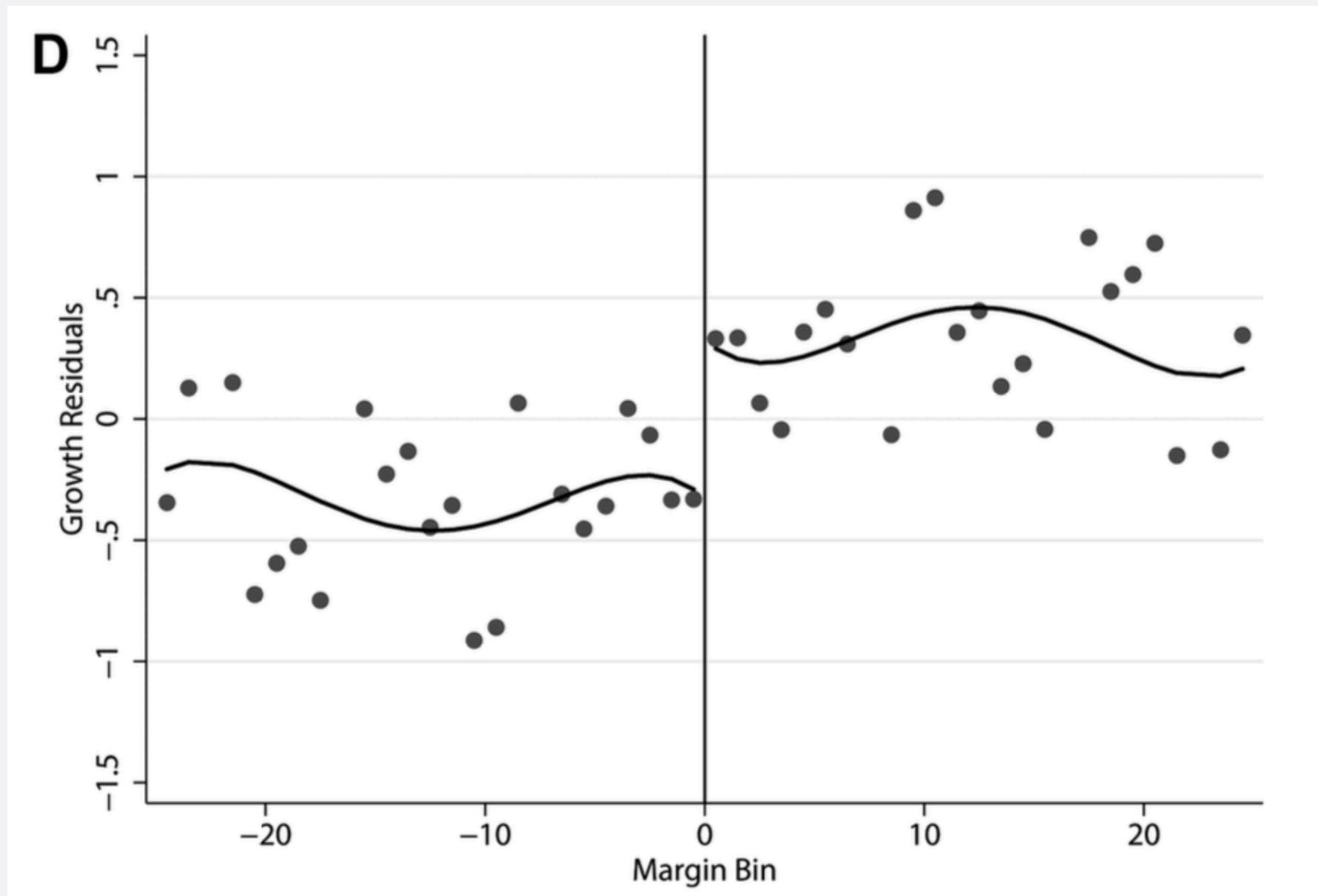
- **BIMARU-states in India (known for being poor, high bureaucratic corruption)**

# WEALTH GROWTH



- non-BIMARU-states in India

# WEALTH GROWTH



- Looking at politicians who became ministers (and the candidates they ran against)

# WEALTH GROWTH

- **India**
  - **Higher returns to holding office**
  - **Only in states where (bureaucratic) corruption is widespread**
  - **Highest returns for ministers (most powerful positions)**

# WEALTH GROWTH

- **How about other countries?**
  - Wealth disclosure not required widely
  - e.g. not in US currently
- **But: Possible to reconstruct wealth of U.S.**

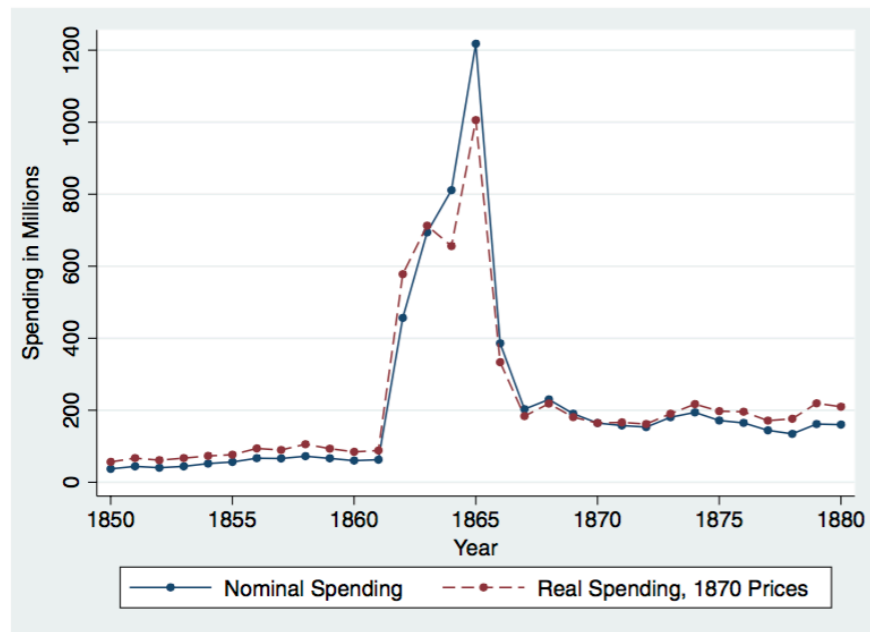
**Congressmen in 19th century**

  - Census data
  - Wealth, number of servants (focus on non-Southern states)
- **Querubin and Snyder (2013): *The Control of Politicians in Normal Times and Times of Crisis: Wealth Accumulation by U.S. Congressmen, 1850-1880***

# WEALTH GROWTH

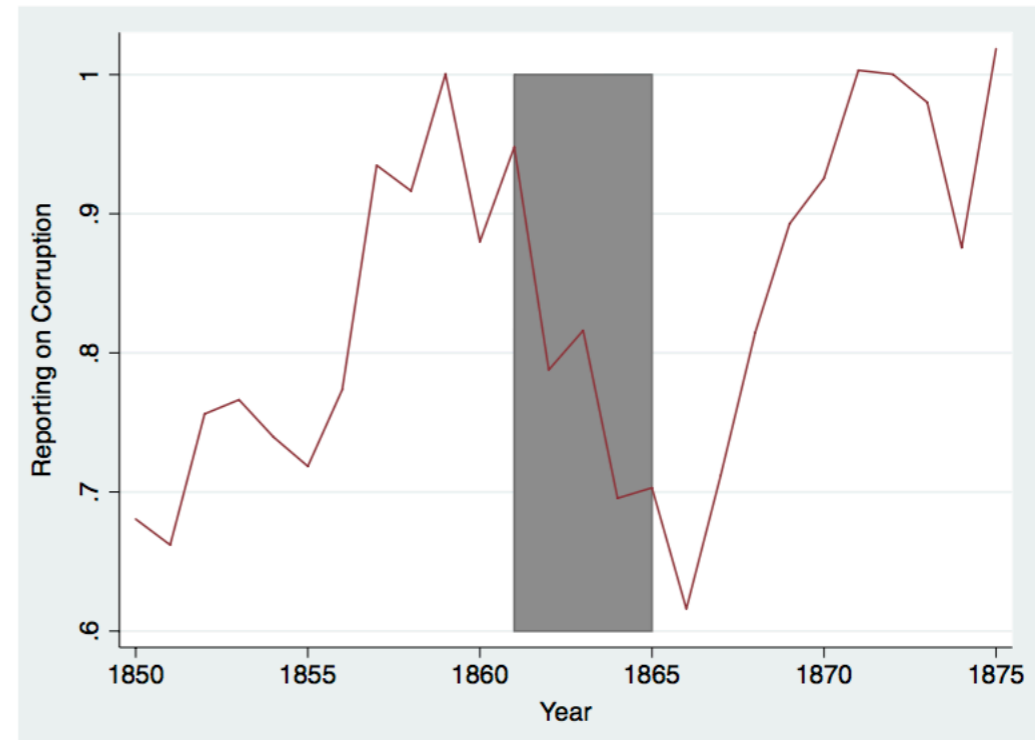
- **Interesting comparison**
  - **1861-1865: Civil war**
  - **At other times: peace**
- **Is wealth accumulation different in times of war and times of peace?**

# WEALTH GROWTH



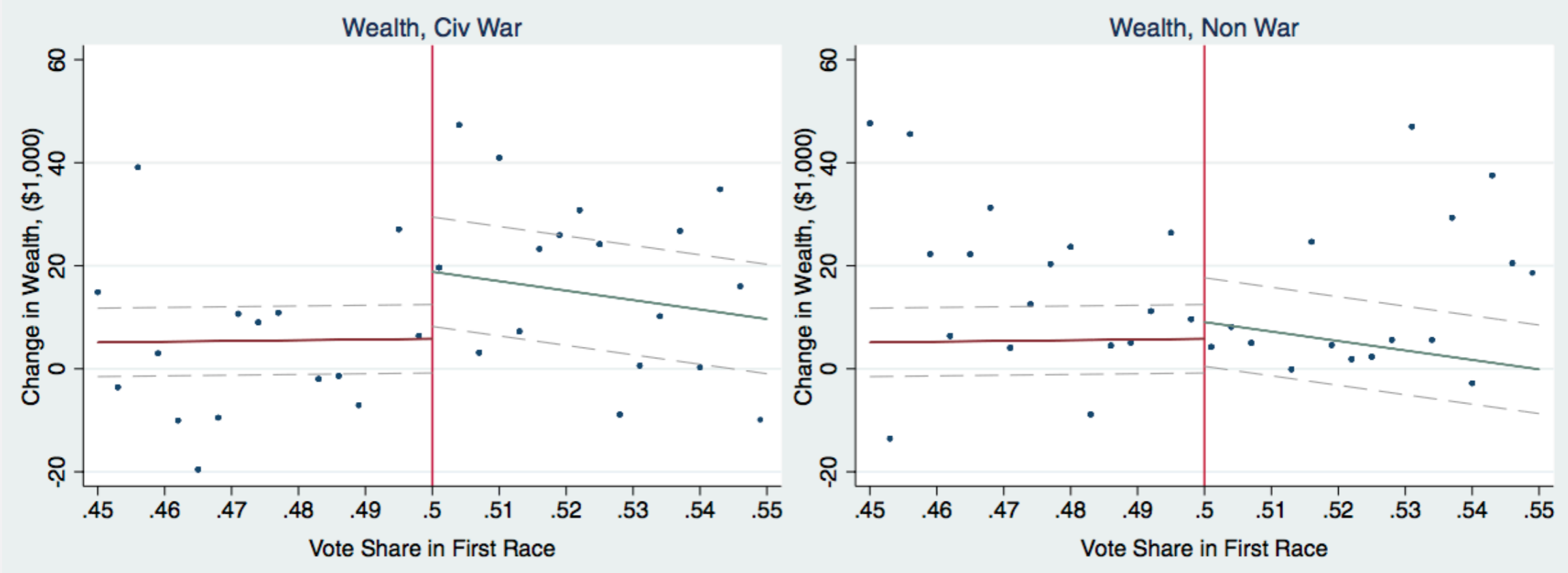
**Figure 1A.** Federal government spending before, during, and after the Civil War.

- **During civil war:  
More government  
spending, less  
monitoring by  
media**



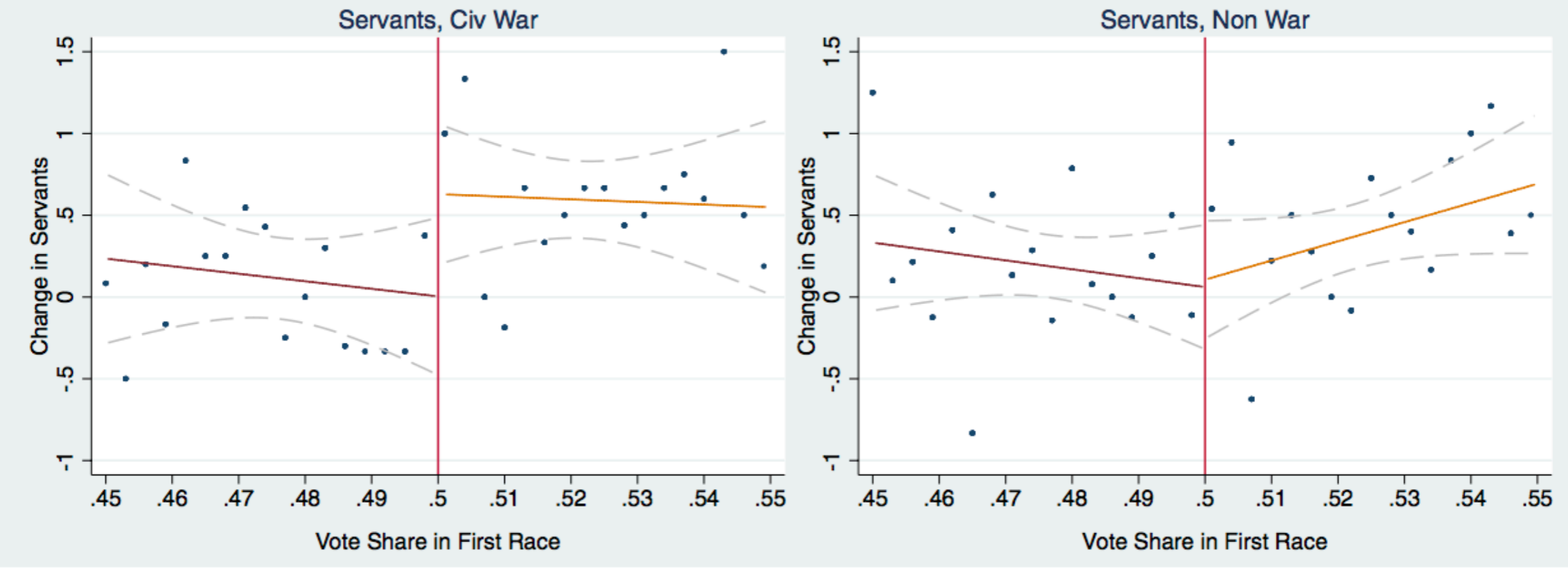
**Figure 1B.** Reporting on corruption, before, during and after the Civil War.

# WEALTH GROWTH





# WEALTH GROWTH



# WEALTH GROWTH

- **Enrichment in times of:**
  - **Little monitoring**
  - **Lots of money**
- **No enrichment in normal times**

# KEEPING SCORE

- **Businessmen become politicians**
  - Has positive effect on business profits, at least in countries with weaker rule of law
- **Politicians get a job after leaving office**
  - Common and lucrative, even in countries with strong rule of law
- **Politicians take bribes or steal in office**
  - Happens in countries with weak rule of law, weak oversight

# NEXT TIME

- **Money in politics and personal enrichment**
- **Money in politics and campaign spending**