Close Elections, Campaign Contributions, and Financial Deregulation

Kyung Woong Koh

Johns Hopkins University

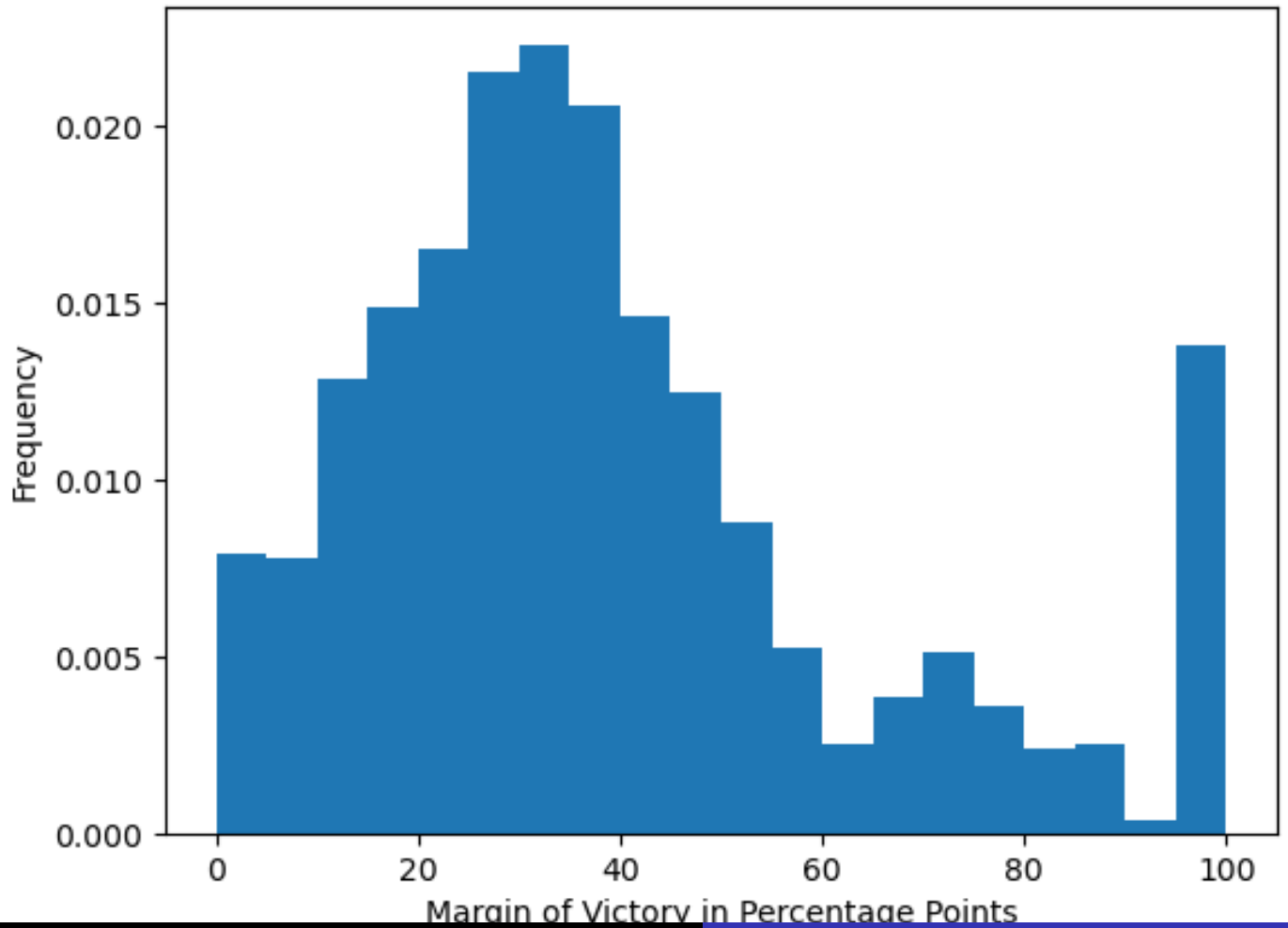
December 21, 2021

Introduction

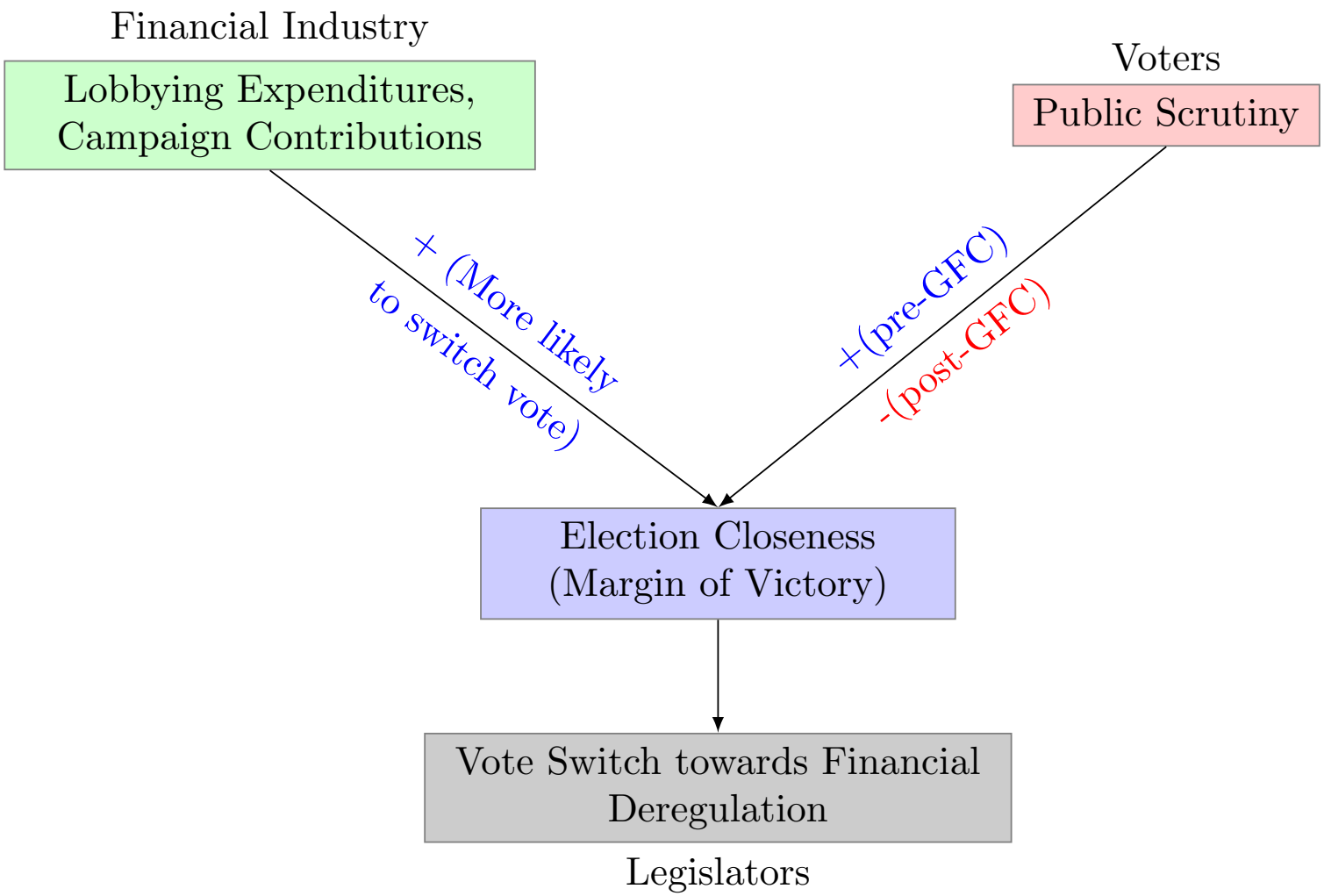
Are legislators in close elections more susceptible to special interests?

- Answers within the context of financial deregulation
- Igan and Mishra (2014): Looks at legislators being susceptible to special interests of financial industry concerning deregulation of lending practices
- New contribution of this paper: Legislators in **close elections**

Key Result


0.020
0.015
0.010
0.005
0.000
Frequency
0
20
40
60
80
100
Margin of Victory in Percentage Points

Mechanism of Legislators' Vote Switching



Dependent Variable

Table: Definition of the Main Dependent Variable, Vote Switch towards Deregulation

Value of S_{iBR}	Voted for deregulation in Bill B, R	Voted against deregulation in Bill B, R
Voted for deregulation in Bill $B, R-1$	0	0
Voted for deregulation in Bill $B, R-1$	1	0

Regression A-1

Regression A1: Regression with only close election and relevant interaction terms

$$S_{iBR} = \beta_1 L_{BR} + \beta_2 X^P_{iBR} + \beta_3 (L_{BR} \times X^P_{iBR}) + \alpha F_{BR} + \gamma T_{BR} + s_i \times t_c + v_B \times t_c + \mu_R \times t_c + \varepsilon_{iBR} \quad (1)$$

Results - Igan and Mishra (2014) Original Specification, OLS

Dep. Variable:	sw_p	**R-squared:**	0.094
Model:	OLS	**Adj. R-squared:**	0.094
Method:	Least Squares	**F-statistic:**	445.1
Date:	Wed, 15 Dec 2021	**Prob (F-statistic):**	3.77e-275
Time:	18:02:33	**Log-Likelihood:**	-1546.4
No. Observations:	12875	**AIC:**	3101.
Df Residuals:	12871	**BIC:**	3131.
Df Model:	3		

	coef	**std err**	**t**	**P> |t|**	**[0.025**
Intercept	-0.0674	0.027	-2.487	0.013	-0.120
log_contributions_FIRE	0.0083	0.002	3.626	0.000	0.004
bill_complexity	0.0306	0.001	23.294	0.000	0.028

Results - Regression A2 (Election Closeness)

Dep. Variable:	sw_p	**R-squared:**	0.094
Model:	OLS	**Adj. R-squared:**	0.094
Method:	Least Squares	**F-statistic:**	268.2
Date:	Wed, 15 Dec 2021	**Prob (F-statistic):**	1.14e-273
Time:	18:02:33	**Log-Likelihood:**	-1543.7
No. Observations:	12875	**AIC:**	3099.
Df Residuals:	12869	**BIC:**	3144.
Df Model:	5		

	coef	**std err**	**t**	**P> |t|**	**[0.02**
Intercept	0.0347	0.053	0.655	0.513	-0.06
log_contributions_FIRE	-4.741e-05	0.004	-0.011	0.991	-0.00
mov_past	-0.0023	0.001	-2.094	0.036	-0.00
mov_contr_int	0.0002	9.42e-05	1.990	0.047	2.82e-

Results - Regression C2 (Media Congruence)

Dep. Variable:	sw_p	**R-squared:**	0.113
Model:	OLS	**Adj. R-squared:**	0.113
Method:	Least Squares	**F-statistic:**	334.6
Date:	Wed, 15 Dec 2021	**Prob (F-statistic):**	1.61e-204
Time:	18:02:33	**Log-Likelihood:**	-1466.4
No. Observations:	7892	**AIC:**	2941.
Df Residuals:	7888	**BIC:**	2969.
Df Model:	3		

	coef	**std err**	**t**	**P> |t|**	**[0.025**	**0.975]**
Intercept	-0.0180	0.010	-1.760	0.078	-0.038	0.002
congruence_dc	0.0384	0.014	2.724	0.006	0.011	0.066
bill_complexity	0.0432	0.002	22.356	0.000	0.039	0.047
tight	-0.1396	0.007	-19.690	0.000	-0.154	-0.126

Igan, Deniz, and Prachi Mishra (2014): "Wall Street, Capitol Hill, and K Street: Political Influence and Financial Regulation," *Journal of Law and Economics*, 57, 1063–1084.