Pay Now, Pay Later: Political Contributions and Underwriting Relationships in the Muni Market

discussion

by

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Summary

The authors examine if political contributions made by municipal bond underwriters in negotiated bids leads to future underwriting business. Looking at a sample from 1999-2013 (post Rule G-37), the authors conclude that multiple small donations and large donations leads to an increase in future business. Given the restrictions on large donations from Rule G-37, there is a two-year gap on receiving this future business. Most of the evidence is associated with contributions to winning candidates in elections. Further, the authors show that regional underwriters choose to donate through multi-small donations, whereas national underwriters make large donations in high growth states. Not surprisingly, underwriters contribute in areas where they already have a strong presence.

Let me tell you what I liked …..

1. that it's an interesting topic
2. that the authors do a thorough job in examining the topic
3. that it addresses causality
4. that the questions/answers are important to investors and the market at large

Thoughts/Questions I have

1. Why is it important/relevant to study this topic? What additional benefit do we gain from the study other than underwriters gain business because of their connections? So, does this have an impact on the cost of the bonds? Do taxpayers pay more because of these connections?

2. This is related to my point above but is this an efficient arrangement between the underwriters and the municipalities? Is there some expertise that is gained by using a certain underwriter? Are some deals more complicated?

3. A bit more on the contribution is also needed. Again, this is related to my two previous points.

4. Inherent issues with a long-term event study (related to the two-year delay of gaining business)?

5. Pin down the channel a bit more. These economic magnitudes are huge, yet the dollar contributions are seemingly low. Difficult to make sense of the results.

6. Discussion on political ideologies mentioned in the paper. Can the authors explore this a bit more. Is this why we see these results?

7. Discuss the sample a bit more. How many instances do underwriters contribute to different candidates? Do they always stick with the same political party?

8. Who has authority over which deals are negotiated? Does this vary based upon contributions?

9. Why exclude underwriters that never contribute (footnote 19)?

But wait, there's more

10. Explain a bit more on how the election outcome analyses handles endogeneity concerns.

11. Do the underwriters gain even more market share after their "candidates" are elected?

12. Disclose the number of observations throughout the paper (e.g., on page 24 when examining the multinomial logit).

13. Can the authors dig a bit deeper on why the negative coefficients in Table, Specification 3 occur?

14. Figure 1 shows huge jumps in market share for the underwriters. Is this concentrated only a few of the underwriters in the sample?

15. Why don't the observations add up in Table 2, Panel A? Specifically, *All donation* compared to the rest of the donations. I get 701 observations for the rest of the donation categories compared to 595 for *All donation*.

16. Why the major differences in sample size across the tables? It appears that the comparisons across the tables are with different samples and it's not clear where/why the sample varies. For example, Table 4 has 5,969 observations. I don't see where that number comes from.

Finally, some minor quibbles

17. Careful on what a placebo test is useful for. A placebo test highlights that things would not change for the treated firms without the treatment.

18. Why stop the sample in 2013? I realize you need two years after this for some of the tests but 2013 seems arbitrary.

19. How many observations are lost in Footnote 23? A number would be nice.

20. I found a few typos in the paper.

21. Table 6 was a bit confusing to me. On an unrelated note, would it make sense to examine these results based upon incumbent or not?