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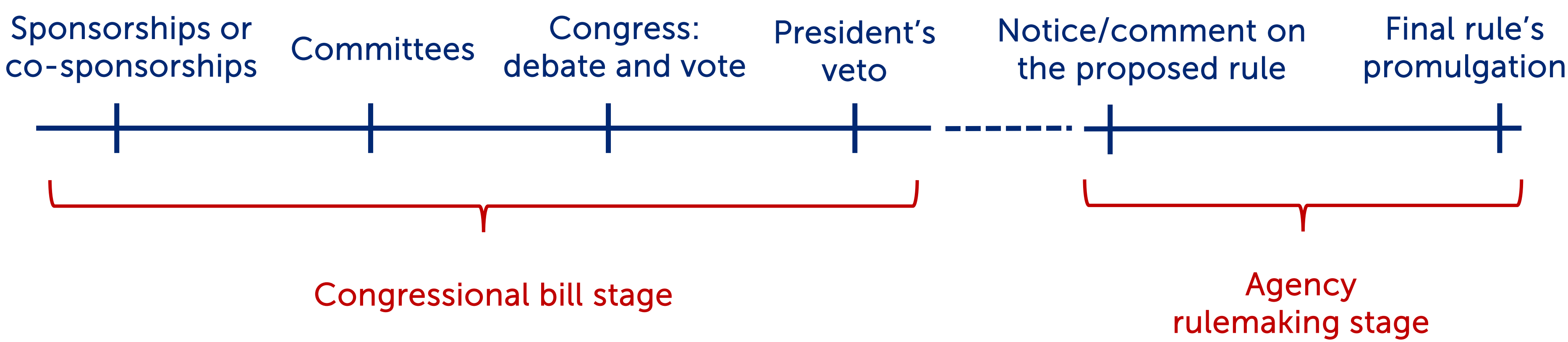
“Financing Legislators” by Adams & Mosk

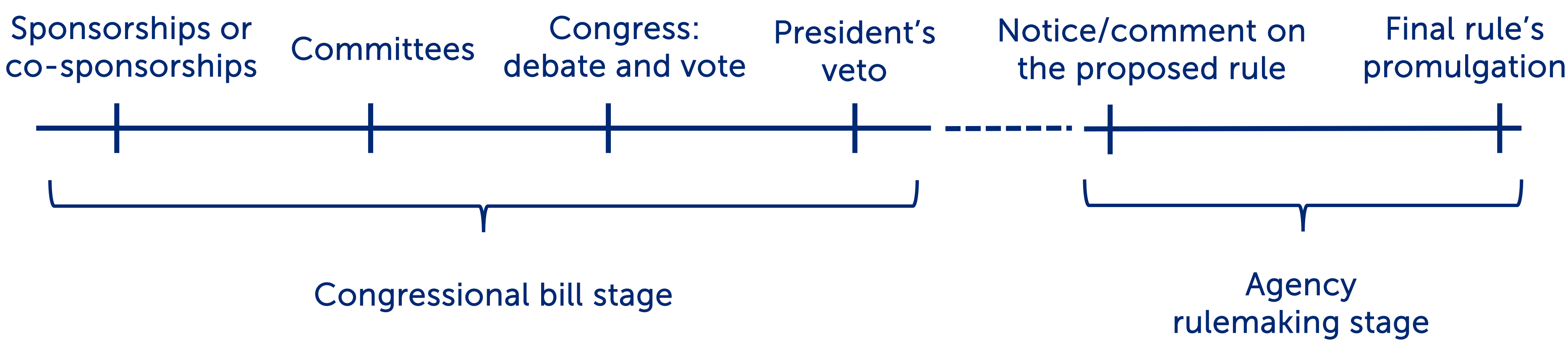
Discussion by Thomas Lambert – Halle, August 2019

The legislative process



Special interest politics

- Influence is achieved…
  1. At different stages
  2. By many different organizations
  3. Using multiple tools

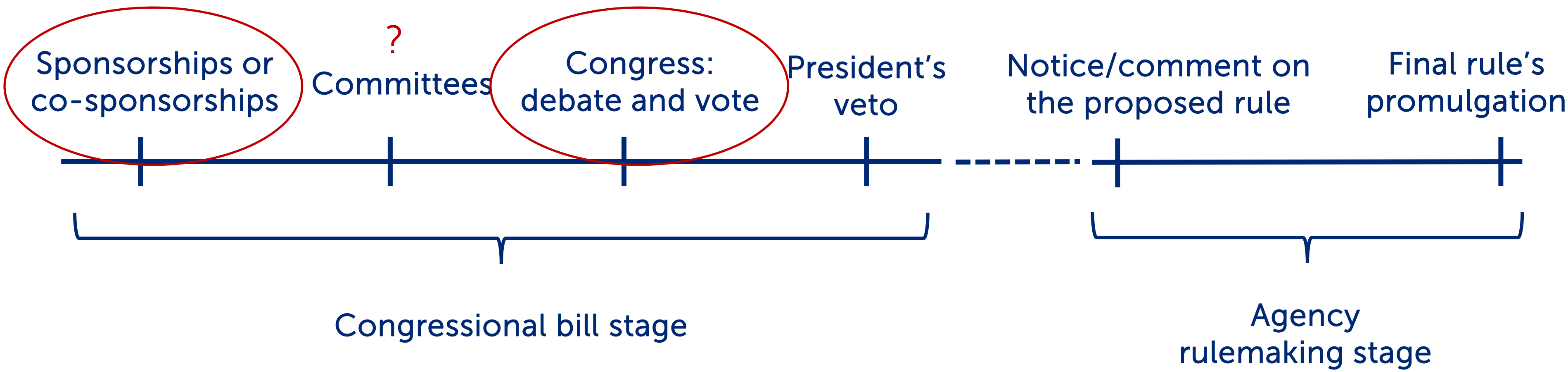


- See e.g. Ban and You (2019) on the Dodd-Frank Act

- See Igan and Lambert (2019) for a survey

This paper

- Literature mostly focused on bills that reached the floor (Stratman JLE 2002; Mian *et al* AER 2010; Igan and Mishra JLE 2014)



- This paper studies the role of finance industry campaign contributions, incuding before the voting stage

Campaign contributions *vs.* lobbying

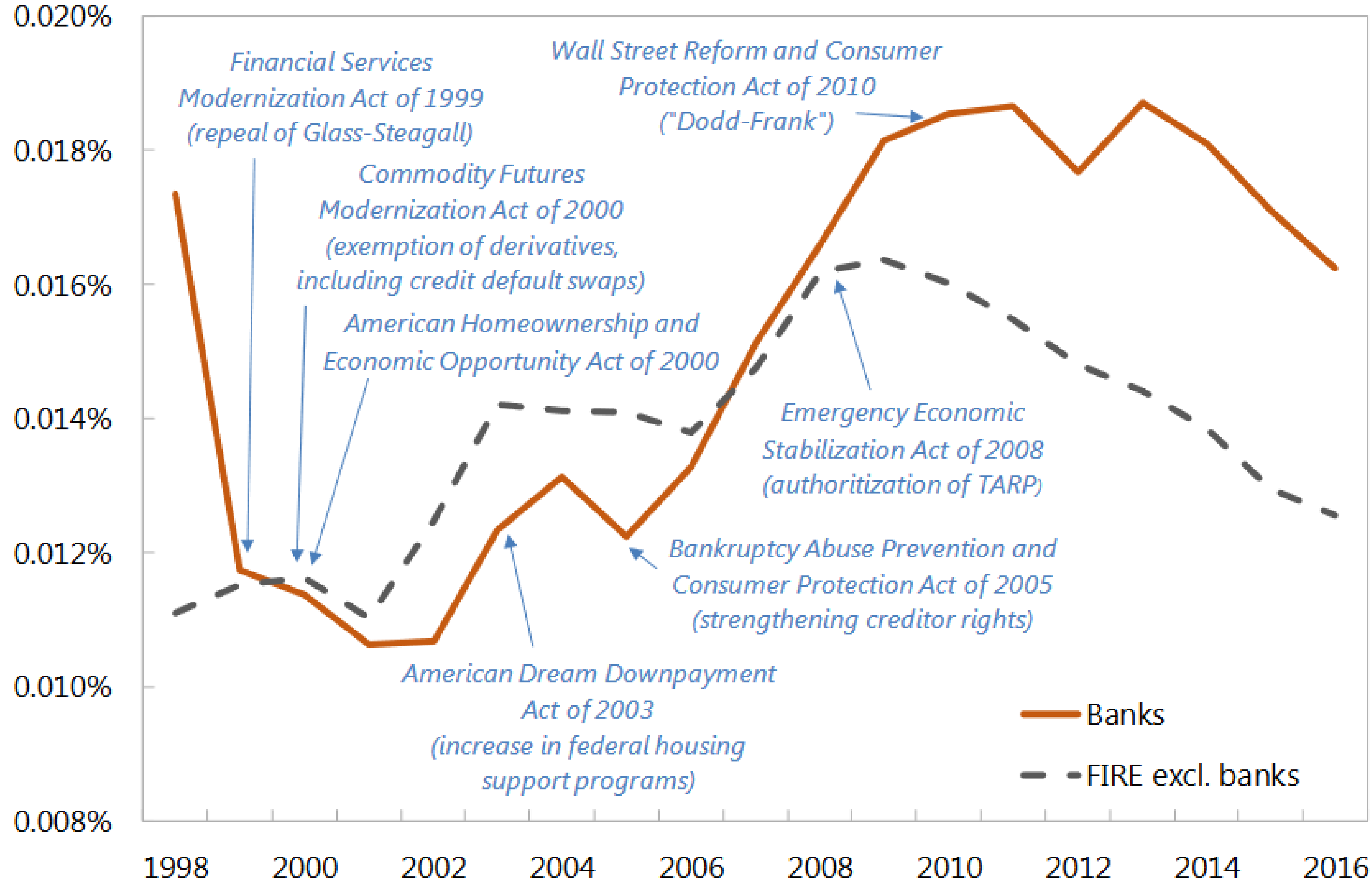
- The paper is not 100% clear about what it means by influence
  - The regressions focus on PAC contributions
  - The discussions largely encompass lobbying

- Are PAC contributions really relevant to legislative outcomes?
  - **PAC contributions:** gain access to legislators
  - **Lobbying:** influence (capture) legislators

- Few interest groups invest in both PAC and lobbying, but the ones who do they account for respectively 86% and 70% of PAC and lobbying expenditures (Tripathi, Ansolabehere, Snyder 2002)

- Interest groups for whom lobbying is important will target legislators in position of power, independent of partisanship

Lobbying by the FIRE industry



Source: Igan and Lambert (2019)

Internal validity: Comments

1. Interests of the FIRE industry

2. Salience of bills

3. Time to the next election

Interests of the FIRE industry

- Are letters good proxy for the position of the whole finance industry?
- The 10 trade associations studied include insurers, bankers, realtors, investment bankers: i.e., the FIRE industry
- The average number of letters per bill is approx. 1 (= 1,047/1,029 using numbers from Tables 1 and 2)

Interests of the finance industry (2)

- Does one letter on average define well the position the finance industry as a whole?

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Memo

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Date: September 29, 2008

To: Members of the U.S. Senate and House of Representatives

From: Edward L. Yingling, President and CEO
Floyd E. Stoner, Executive Vice President, Congressional Relations & Public Policy

RE: Support for the Emergency Economic Stabilization Act of 2008

I am writing on behalf of the entire banking industry to express our support for the compromise legislative package that Congress is considering to address the current financial crisis.

The crisis on Wall Street and in financial centers around the world has reached a point where extraordinary action is required. The proposal put forth by Treasury Secretary Henry Paulson and modified by Members on both sides of the aisle is a constructive solution to the crisis we face. It will provide the financial backstop needed to unfreeze the financial markets and provide for greater transparency and accountability for firms that participate in the program.

The action that Congress is taking is not one that the regulated banking industry sought, but is necessary to address this financial crisis to ensure that credit is available to consumers and businesses on Main Street. There can be no doubt that the freezing up of the world's credit markets and the loss of confidence we are seeing will, if left unchecked, dramatically impact consumers and businesses of all sizes.

While we support the basic construct of the compromise package, we are concerned about the provision that was added at the end of the process to have the President assess the final costs to the government, after five years, and make a legislative proposal on how to recoup those costs from the financial services industry, possibly through the assessment of a fee. As Secretary Paulson, Chairman Bernanke, and many Members of Congress have consistently pointed out, this crisis was the result of actions of unregulated mortgage brokers and failures on Wall Street, not of actions of regulated, FDIC-insured banks.

We support this compromise package because we recognize the impact that a failure to pass this legislation would have on the national economy

Interests of the finance industry (3)

- Are interests within the industry necessarily aligned?

Insurance	$78,840,900
Securities & Investment	$51,545,021
Real Estate	$45,554,943
Commercial Banks	$30,850,938
Misc Finance	$16,625,525
Finance/Credit Companies	$15,771,979
Accountants	$9,900,000
Credit Unions	$4,185,500
Savings & Loans	$1,430,000

FIRE industry lobbying in 2019 (*source:* www.opensecrets.org)

- Kroszner and Strahan's (QJE 1998) seminal work also suggests that conflicting interests within the FIRE industry explain patterns of deregulation
  - The relative strength of winners (large banks) and losers (small banks and the rival insurance companies) accounts for the timing of branching deregulation in the US

Interests of the finance industry (4)

- Trade associations lobby a lot… individual banks as well

American Bankers Assn	$8,960,000
Citigroup Inc	$5,520,000
JPMorgan Chase & Co	$5,465,000
Independent Community Bankers of America	$4,250,000
Bank of America	$4,090,000
HSBC Holdings	$2,840,000
Barclays	$2,370,000
Wells Fargo	$2,265,740
Consumer Bankers Assn	$2,138,000
Wachovia Corp	$1,781,000

Lobbying by commercial banks in 2008
(*source:* www.opensecrets.org)

Interests of the finance industry (5)

Table 4: Congress member fixed effects

Table 4 presents the estimation results of the following specification:

$$\Pr(y_{ij}) = \beta_1 FI\ share_{jt} + \beta_2 X_{jt} + \gamma_j + \gamma_{ik} + \epsilon_{ijkt}$$

where y_{ij} is the dependent variable *FI aligned sponsor, Amendment proposed, FI aligned cosponsor, and FI aligned vote*. $FI\ share_{jt}$ is the total contributions from the finance industry divided by the total amount of contributions raised by Congress member j in the last election, measuring the dependence of the Congress member on the financial sector, X_{jt} are time varying characteristics (committee fixed effects), γ_j Congress member fixed effects, and γ_{ik} are party k x bill i and ideology j x bill i fixed effects. We cluster the standard errors at the Congress member level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level respectively.

Panel A: Legislative drafting

Dependent variable	FI aligned sponsor (0/1)			Amendment proposed (0/1)		
	(1)	(2)	(3)	(4)	(5)	(6)
FI-share	0.018***	0.018***	0.017**	0.023*	0.022*	0.029*
	(0.006)	(0.006)	(0.008)	(0.014)	(0.013)	(0.017)
Republican	0.003***			-0.005		
	(0.001)			(0.004)		
DW Ideology	-0.002	-0.002*		0.002	0.002	
	(0.001)	(0.001)		(0.005)	(0.005)	
Financial services committee	0.005***	0.004***	0.005***	0.007***	0.006***	0.007**
	(0.001)	(0.001)	(0.001)	(0.002)	(0.002)	(0.003)
Bill FE	YES			YES		
Bill x Party FE		YES	YES		YES	YES
Congress member FE			YES			YES
Observations	249,576	249,576	249,576	249,576	249,576	249,576
R-squared	0.970	0.970	0.970	0.134	0.151	0.174

Salience of bills

- Examination of very important bills (e.g., Gramm–Leach–Bliley Act, Emergency Economic Stabilization Act, Foreclosure Prevention Act, Dodd-Frank Act, Financial CHOICE Act)

- The salience of these bills are very high at the time of their vote and hence <u>involved parties are realistically informed</u>

- This condition might not be prevalent on the <u>average</u> bill

- The estimates are likely to be lower bonds of legislator responsiveness to special interests

Time to the next election

- The vote on EESA, for instance, took place on October 3, 2008 (i.e., in the months preceding the national election)

- The balance between being responsive to special interests and sticking to own ideology may vary over time
  - Because of the next election approaching
  - Also because of the shock of the crisis on legislators' ideology

Internal validity: Suggestions

1. Interests of the finance industry
   - Clarify some choices made (when conflicting positions, when no letter associated with a bill)
   - Strengthen the section on the representativeness of trade associations
   - Redefine *FI Share* with the contributions made by trade associations and control for contributions made by individual finance firms (commercial banks, insurance firms, …)

2. Salience of bills
   - Exploit cross-sectional heterogeneity (most important bills, etc.)
   - Table 5: the interaction with *Letters>1* do not help to capture the importance of the bill

3. Time to the next election
   - Exploit cross-sectional heterogeneity (time to elections, competitive districts, retiring representatives, etc.)
   - Time fixed effects?
   - Run the regressions before/after the 2008-09 crisis and/or Dodd-Frank

Reciprocity hypothesis

- Other mechanisms at work (information transmission, legislative capture)?

- Results from Tables 7 and 8 may suggest reverse causality concerns of the main results reported in Table 4 (as PAC contributions are very persistent over time)
  - Further analyses on the relationship between PAC and lobbying may help

- Why not directly looking at the reelection of the politician?

- Why do the estimates reported in column 3 of Table 7 are not the same than the ones reported in column 1 of Table 8?

Conclusion

- There is a lot to like in this paper
- Super important research question
- Impressive data work, interesting analyses
- Clarify the contribution
- Clarify the exact role of lobbying, focus on internal validity, and strengthen explanation of the findings
- Improve exposition and writing
- **Good luck with the paper!**