Financing legislators

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Motivation

The finance industry is

- the single largest source of campaign contributions (CRP, 2018).
- one of the most heavily regulated industries (McLaughlin and Sherouse’s, 2018) and faces substantial political risk (Hassan et al., QJE forth.)

This paper: a novel approach to reexamine whether contributions help the industry influence legislators
Why a new approach?

- Extensive literature on roll call voting

  “Contributions explain a miniscule fraction of the variation in voting behavior in the U.S. Congress.”
  (Ansolabehere et al., 2003)

- Influence may take place before the vote (Powell, 2014; Stratmann, 2017; NYT, 2013)

- But, an economic analysis of regulation requires clearly defined winner and losers (Peltzman, 1984)
  - Prior literature relies on assumptions and case studies.
What we do

Extract policy positions from top 10 finance trade association letters to Congress

- Link campaign contributions to Congress member behavior over the legislative process of 827 bills.
- Textual analysis of the letters to understand how they attempt to influence legislators.

Take away: voting alone is not sufficient for quantifying the influence of the finance sector.
October 5, 2015

United States House of Representatives
Washington, DC 20515

Dear Representative:

On behalf of the undersigned organizations, we urge you to support H.R. 3192, the Homebuyers Assistance Act. This legislation will provide an official hold-harmless period until February 1, 2016, for those making a good-faith effort to comply with the Consumer Financial Protection Bureau’s (CFPB) new TILA-RESPA Integrated Disclosure (TRID) rule, which became effective on October 3, 2015.

We respectfully request that you vote in favor of the Homebuyers Assistance Act to prevent unnecessary, frustrating, and sometimes costly delays for consumers who buy homes in your communities this fall.

Sincerely,

American Bankers Association
American Land Title Association
American Resort Development Association
Appraisal Institute
Arkansas Land Title Association

Housing Policy Council of Financial Services Roundtable
Independent Bankers Association of Texas
Independent Community Bankers of America

National Association of Realtors
New York Land Title Association
Ohio Land Title Association
Palmetto Land Title Association
Real Estate Bar Association of Massachusetts
Example: The Homebuyers Assistance Act

- **Introduction Phase**
  - Jul 23, 2015
  - Introduced in House
  - Referred to the Financial Services Committee
  - Sponsor: By French Hill
  - Co-sponsor: Brad Sherman

- **Committee Phase**
  - Jul 29, 2015
  - FSC amendments: None
  - FSC vote on the motion to report the bill
  - Yeas/Nays: 45 - 13

- **Floor Phase**
  - Oct 1, 2015
  - Reported by the Financial Services Committee
  - Vote on passage
  - Yeas/Nays: 303 - 121
  - Oct 5, 2015
  - Letter finance trade associations
  - 7 Oct 15
  - Floor amendments: None
Example: The Homebuyers Assistance Act

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  - Letter finance trade associations

**Sponsor:** By French Hill
**Co-sponsor:** Brad Sherman
Why care about trade associations?

Important finance industry lobby groups:

• Account for 41 percent of the industries’ PAC contributions.
• 36 percent of the industry’s lobby expenditures
• Their mandate is to represent the industry

“American Banking Association members hold 95 percent of the banking industry’s assets.”

„CUNA represents America’s credit unions and their 110 million members.”
When and to whom?

<table>
<thead>
<tr>
<th>Phase</th>
<th>To full House/Senate</th>
<th>To party leadership</th>
<th>To committee leadership</th>
<th>To individual members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction phase</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Committee phase</td>
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<tr>
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</table>

Number of letters

- Introduction phase
- Committee phase
- Floor phase

Graph showing the distribution of letters during each phase.
About what?

![Graph showing share of letters discussing topic and letter length across different phases of the voting process.]

- **Introduction phase**:
  - Share of letters discussing topic: Low
  - Letter length (words): Constant

- **Committee phase**: (Highest point in the graph)
  - Share of letters discussing topic: High
  - Letter length (words): Decreasing

- **Floor phase**: (Lowest point in the graph)
  - Share of letters discussing topic: Low
  - Letter length (words): Increasing

Legend:
- Gray line with diamonds: Revision words
- Black line with triangles: Voting words
- Black dashed line with inverted triangles: Letter length
Linking TA contributions to legislative behavior

Empirical challenges in the literature

▪ One typically does not know if interest groups support or oppose the passage of a bill.

▪ We extract policy positions from TA letters

▪ Contributions may be correlated with unobservable preferences of Congress members or constituents.
  ▪ Rep. Luetkemeyer’s (MO) family owns community bank

▪ Congress member fixed effects
Measuring stated policy positions

Letters contain clearly stated policy positions

We use a coding script to classify letters
- "Support", "Oppose", "View" (residual category)
- Sentiment analysis as robustness

Policy positions by top 10 finance trade association on 827 bills (1999-2018)
- 85 percent of the top quintile most lobbied bills.
**Contributions and legislative behavior**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs.</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>House member characteristics (Member x # Congress level )</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions finance trade associations (mln $)</td>
<td>4,361</td>
<td>0.039</td>
<td>0.041</td>
</tr>
<tr>
<td>Contributions finance industry (mln $)</td>
<td>4,361</td>
<td>0.093</td>
<td>0.12</td>
</tr>
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<th>Variable</th>
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<tr>
<td>Legislative behavior (House member x bill level)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Introduction phase</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sponsor (0/1)</td>
<td>250,922</td>
<td>0.002</td>
<td>0.05</td>
</tr>
<tr>
<td>Original co-sponsor (0/1)</td>
<td>250,922</td>
<td>0.02</td>
<td>0.25</td>
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<tr>
<td>Committee phase</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>FSC amendment (0/1)</td>
<td>11,568</td>
<td>0.05</td>
<td>0.21</td>
</tr>
<tr>
<td>FSC vote (0/1)</td>
<td>7,588</td>
<td>0.77</td>
<td>0.42</td>
</tr>
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<td>Floor phase</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Floor amendment (0/1)</td>
<td>184,541</td>
<td>0.004</td>
<td>0.062</td>
</tr>
<tr>
<td>Passage vote (0/1)</td>
<td>83,907</td>
<td>0.75</td>
<td>0.43</td>
</tr>
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**Focus on House of Representatives**

- Within House member variation in contributions
- The majority of the bills are introduced in the House
Empirical strategy: congress member FE

\[ y_{ijt} = \beta_1 \text{Contr}_{ijt-1}^{Sup} + \beta_2 \text{Contr}_{ijt-1}^{Opp} + \gamma_j + \gamma_i \times X_j + \epsilon_{ijt} \]

\( y_{ij} \) is a legislative behavior measure (e.g. Sponsor, Passage vote).

\( \text{Contr}_{ijt-1}^{Sup} = \sum_{k=1}^{n} \text{Contribution}_{kjt-1} \cdot \text{Support}_{ik} \)

\( \text{Contribution}_{kjt-1} \) = Contribution of trade association k to Congress member j for the last election.

\( \text{Support}_{ik} = 1 \) if trade associations supports bill i, and 0 otherwise.

\( \gamma_j \) are Congress member FE

\( \gamma_i \times X_j \) are bill x party and bill x ideology interactions

SE clustered at the Congress member level
## Contributions and legislative behavior

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<td>Contributions TA's opposing the bill</td>
<td>-0.192** (0.096)</td>
<td>-1.441*** (0.250)</td>
<td>-1.355 (2.056)</td>
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<td>Controls</td>
<td>YES</td>
<td>YES</td>
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<tr>
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<td>YES</td>
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<td>YES</td>
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Conclusion

- Trade association contributions are associated with legislative behavior in line with their policy positions.

- Our findings highlight that the industry might have an important role in shaping regulation.

- Financial regulation is not exogenous.

Future research:
- Understanding whether trade associations provide information or trying to extract rents. Important for understanding welfare implications.
- Trade association provide a rich laboratory for studying the relationship between industry and legislators.