Evidence Card: Arguments Against Banning Congressional Stock Trading

Team Policy Evidence Sheet

Tag Line

Congressional stock trading bans harm market efficiency and don't address real conflicts of interest while existing laws already prevent insider trading

Verbal Citation

Jennifer J. Schulp, financial regulation expert at the Cato Institute, argues in her article "Banning Lawmakers from Trading Stocks Won't Fix Congress" that "restricting Congressional trading not only has the potential to harm markets, but a focus on insider trading obscures the broader question of how to address lawmakers who may use their positions for personal, financial gain." She explains that "Prohibitions on insider trading already harm market efficiency by preventing a stock's price from reflecting all of the information known about the stock" and warns that "A broad-based ban on stock trading or ownership would add to that market inefficiency by preventing lawmakers from contributing information that allows the markets to engage in price discovery." Schulp concludes that "Justifying a stock-ownership ban based on insider trading rules also makes little sense. The issue is not with maintaining investor confidence in the market... The issue is with maintaining voter confidence in their elected officialsâ€”two very different issues."

What the evidence says in context

Jennifer J. Schulp, financial regulation expert at the Cato Institute, analyzes proposals to ban Congressional stock trading and finds them misguided. She argues that the STOCK Act already prohibits insider trading by members of Congress, and recent research by the National Bureau of Economic Research shows "no particular outsized returns for lawmakers" after the STOCK Act. Schulp contends that insider trading restrictions already "harm market efficiency by preventing a stock's price from reflecting all of the information known about the stock," and broader bans would worsen this market inefficiency. She emphasizes that Congressional information about industries and the economy should be absorbed into markets "when doing so does not violate existing insider trading law."

Impact

Banning Congressional stock trading would harm market efficiency by preventing the incorporation of valuable economic information into stock prices, making markets less efficient. The STOCK Act already prohibits insider trading by lawmakers, and recent research shows no evidence of outsized Congressional trading gains since its passage.

Stock trading bans don't address the broader conflicts of interest that exist beyond individual stock ownership, including fund investments, crypto holdings, and business interests. Such restrictions add confusion to an already complex legal framework while focusing on market confidence rather than voter confidence in elected officials.

Webpage or Book Title

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