

Lending to Influence Politicians: County-level Evidence

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Question

Do firms invest more in regions represented by politicians relevant to the firm's business interests?

Specifically, do financial firms lend more in counties represented by members of the US House Financial Services Committee?

Motivation

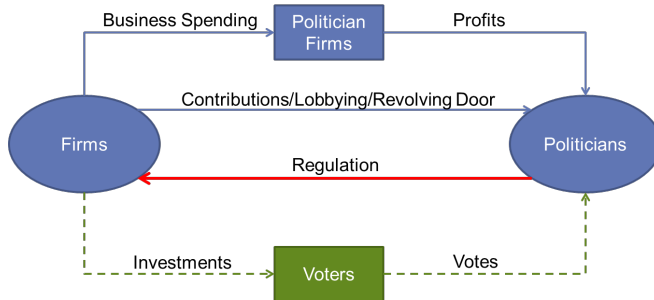
“The community banking lobby, by many accounts, is the most powerful in the industry. What the banks lack in size, they make up for in numbers – more than 6,000, at least one in each congressional district. (Bank lobbyist) Fine keeps a map on his office wall showing each of his members in every congressional district, a reminder that he can activate locally influential bankers to further his group’s message with any congressional office.”¹

¹Source: <http://www.publicintegrity.org/2014/04/24/14595/meet-banking-caucus-wall-streets-secret-weapon-washington>

Motivation

- ▶ Political connections matter
 - ▶ Campaign contributions (Akey, 2013); Social ties (Do, Lee and Nguyen, 2013)
 - ▶ RD design around close elections; value effect well above 1%
- ▶ Despite this, total directed political activity in US in '05-06 was \$5.26 bn (Igan and Mishra, 2014)
 - ▶ Share of FIRE industries about 15%
- ▶ “Why is there so little money in US politics” (Ansolabehere, de Figueiredo and Snyder, 2001)
- ▶ Role of “indirect” contributions?

Channels of Influence



Related Literature

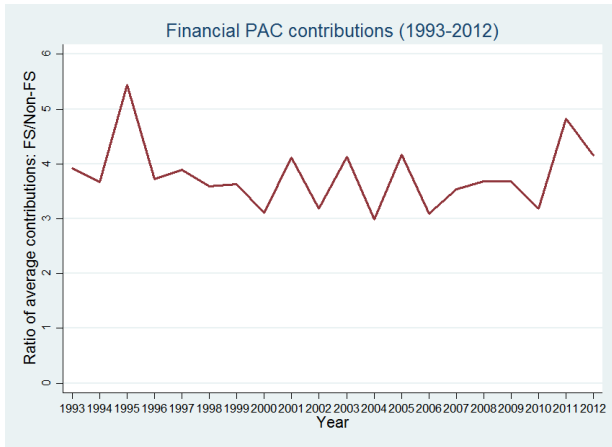
- ▶ Politically motivated lending
 - ▶ Cole (2009); Sapienza(2004); Dinc(2005)
 - ▶ Focus is on role of state-owned banks and election cycles
- ▶ Lobbying and subprime lending
 - ▶ Igan, Mishra and Tressel (2011); Mian, Sufi and Trebbi (2013)
- ▶ Other indirect channels
 - ▶ DellaVigna, Durante, Knight and Ferrara (2013)
 - ▶ Ad spending in Italy: more ads on Berlusconi's channel when he was in power

Committee System

- ▶ The current Standing Committee system emerged in the early 20th century
- ▶ Distinctive features are permanence, specialization and stability of membership
- ▶ Kroszner and Stratmann (1998) argue that this system has endogenously arisen to foster repeated interaction between members and interest groups
 - ▶ A high contribution-high effort reputation equilibrium may arise
 - ▶ Reputation (and contributions) may take time to build due to uncertainty about the politician's type

Financial Services Committee

- ▶ Oversight of all financial regulators (Fed, Treasury, SEC)
- ▶ Responsible for drafting new legislation
 - ▶ *Dodd-Frank*, *Gramm-Leach-Bliley*, *Glass-Steagall*



Specification

$$\Delta \text{LogLoans}_{ct} = \alpha_c + \beta_1 \Delta FS_{ct}^+ + \beta_2 \Delta FS_{ct}^- + \gamma \Delta X_{ct} + \delta_t + \varepsilon_{ct}$$

- ▶ Difference-in-Differences specification; estimating in first difference allows for asymmetric effects, reversal etc. (Heider and Ljungqvist 2014)
- ▶ ΔFS_{ct}^+ is a positive shock while ΔFS_{ct}^- is a negative shock
- ▶ Controls include county-level changes in establishments, employment, population, HHI, house price growth (MSAs only), proportion of minority applicants
- ▶ County fixed effects; Year (or region-year) fixed effects
- ▶ Standard errors clustered at Congressional District level

Shocks

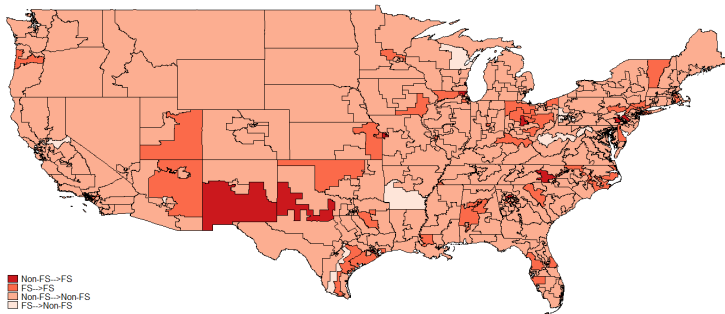


Figure: Changes in membership at start of 109th Congress (2005)

	N	Mean
FS	62828	0.10
ΔFS^+	59677	0.02
ΔFS^-	59677	0.02

1090 positive shocks; 990 negative shocks

Data Sources

- ▶ Mortgage lending: HMDA loan application register
- ▶ Committee membership: Stewart and Woon (2006) – updated to 2012
- ▶ Geographic linking: MABLE Geocorr (Missouri Census Data Center)
- ▶ PAC Contribution: Center for Responsive Politics (opensecrets.org)
- ▶ Controls: QCEW, CBP, Census, FHFA
- ▶ Sample period is 1993-2012

Base Results - HMDA

	$\Delta \text{Log (Loan Amount)}$			
ΔFS^+	-0.002 (0.020)	-0.003 (0.018)	-0.004 (0.012)	-0.003 (0.015)
ΔFS^-	-0.039** (0.017)	-0.036** (0.015)	-0.027* (0.015)	-0.031* (0.016)
Controls	No	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	No
County FE	Yes	Yes	Yes	Yes
Region-Year FE	No	No	No	Yes
Adj. R^2	0.445	0.496	0.669	0.513
Observations	59215	59156	20400	59156

- ▶ Similar results with number of loans
- ▶ Asymmetric effect

Pre-Trends

$\Delta \text{ Log (Loan Amount)}$								
$\Delta FS^+(t = +1)$	-0.008 (0.017)	-0.013 (0.021)	-0.026** (0.012)	-0.025 (0.016)				
$\Delta FS^-(t = +1)$	-0.018 (0.021)	-0.017 (0.018)	0.000 (0.013)	-0.010 (0.014)				
$\Delta FS^+(t = +2)$					0.006 (0.020)	0.001 (0.020)	0.015 (0.015)	-0.010 (0.015)
$\Delta FS^-(t = +2)$					-0.018 (0.018)	-0.009 (0.015)	-0.008 (0.016)	0.003 (0.013)
Controls	No	Yes	Yes	Yes	No	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	No	Yes	Yes	Yes	No
County FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Region-Year FE	No	No	No	Yes	No	No	No	Yes
Adj. R^2	0.549	0.585	0.774	0.602	0.558	0.593	0.777	0.610
Observations	46461	46419	15892	46419	43507	43472	14887	43472

Falsification - Ways and Means Committee

	$\Delta \text{ Log (Loan Amount)}$			
ΔWM^+	0.004 (0.016)	0.009 (0.016)	-0.004 (0.015)	0.017 (0.019)
ΔWM^-	0.005 (0.024)	0.015 (0.022)	0.003 (0.021)	-0.003 (0.021)
Controls	No	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	No
County FE	Yes	Yes	Yes	Yes
Region-Year FE	No	No	No	Yes
Adj. R^2	0.445	0.496	0.669	0.513
Observations	59215	59156	20400	59156

Politician Characteristics

	Δ Log (Loan Amount)				
	Low Rank	Mid Rank	High Rank	Low Contribution	High Contribution
ΔFS^-	-0.056* (0.033)	-0.055 (0.040)	-0.016 (0.048)	-0.061** (0.030)	-0.016 (0.032)
Controls	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
County FE	Yes	Yes	Yes	Yes	Yes
Region-Year FE	No	No	No	No	No
Adj. R^2	0.550	0.563	0.480	0.532	0.495
Observations	2452	1704	2039	2841	2894

- ▶ Effect larger for those receiving low direct contributions, implying substitutability
- ▶ No significant results by rank though magnitude seems smaller for high ranked (more senior) members
- ▶ Unreported – no difference by party

Periods of Heightened Regulation

- ▶ 2008-2011 period characterized by increased economic hardship in addition to a renewed focus on financial regulation
- ▶ Effect should be larger

$\Delta \text{ Log (Loan Amount)}$						
	1993-2012			2008-2011		
ΔFS^+	-0.002 (0.020)	-0.003 (0.018)	-0.003 (0.015)	0.006 (0.045)	0.004 (0.043)	-0.003 (0.031)
ΔFS^-	-0.039** (0.017)	-0.036** (0.015)	-0.031* (0.016)	-0.081*** (0.027)	-0.074** (0.029)	-0.053 (0.033)
Controls	No	Yes	Yes	No	Yes	Yes
Year FE	Yes	Yes	No	Yes	Yes	No
County FE	Yes	Yes	Yes	Yes	Yes	Yes
Region-Year FE	No	No	Yes	No	No	Yes
Adj. R^2	0.445	0.496	0.513	0.331	0.372	0.398
Observations	59215	59156	59156	12490	12485	12485

Causes

Cause	N
Retirement/Death	183
Redistricting	86
Transfer	415
Lost election	262
Higher office	44
Total	990

Causes

	$\Delta \text{ Log (Amount of Loans)}$			
ΔFS^+	-0.002 (0.020)	-0.003 (0.018)	-0.006 (0.011)	-0.003 (0.015)
$\Delta FS^- \times \text{Retire}$	-0.049 (0.048)	-0.050 (0.044)	-0.051** (0.023)	-0.055 (0.046)
$\Delta FS^- \times \text{Redist}$	0.035 (0.032)	0.028 (0.036)	-0.031 (0.023)	0.023 (0.031)
$\Delta FS^- \times \text{Transfer}$	-0.016 (0.021)	-0.021 (0.018)	0.003 (0.023)	-0.013 (0.019)
$\Delta FS^- \times \text{Lost}$	-0.080*** (0.029)	-0.061** (0.028)	-0.038** (0.018)	-0.057* (0.033)
$\Delta FS^- \times \text{HigherOffice}$	-0.114** (0.054)	-0.105*** (0.040)	-0.062 (0.094)	-0.060 (0.049)
Controls	No	Yes	Yes	Yes
Year FE	Yes	Yes	No	No
County FE	Yes	Yes	Yes	Yes
Region-Year FE	No	No	Yes	Yes
Adj. R^2	0.446	0.496	0.696	0.513
Observations	59215	59156	20400	59156

Summary

- ▶ Asymmetric effect – decline in lending on a negative shock, no effect on a positive shock
- ▶ Effect larger where the politician received less direct contributions
- ▶ Effect larger during times of heightened regulation

Thank You

Base Results - Deposits

	$\Delta \text{ Log (Loan Amount)}$		
ΔFS^+	-0.003 (0.006)	-0.002 (0.006)	-0.002 (0.006)
ΔFS^-	-0.013** (0.006)	-0.013** (0.006)	-0.011* (0.006)
Controls	No	Yes	Yes
Year FE	Yes	Yes	No
County FE	Yes	Yes	Yes
Region-Year FE	No	No	Yes
Adj. R^2	0.025	0.024	0.033
Observations	56812	53724	53724