

The Making of Financial Regulation - Voting on Financial Regulation in the U.S. Congress

João Rafael Cunha
University of St Andrews



University of
St Andrews

Voting on Financial Regulation in the U.S. Congress

Causal Direction & Long-term Perspective

Campaign Contributions from the Financial Industry

Determinants of Financial Regulation

Determinants of Financial Regulation

Research Question:

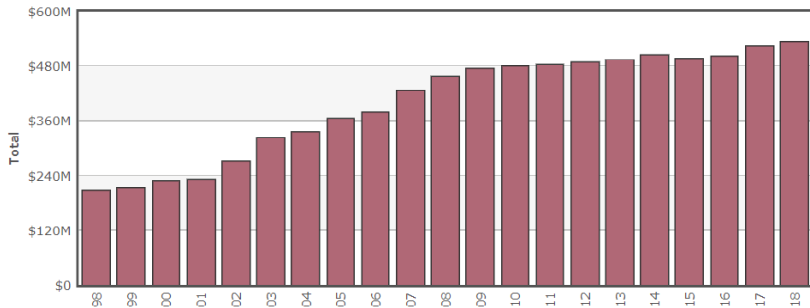
What Variables Influence Voting in Financial Regulation in the U.S. Congress?

- Public interest theory of regulation

Regulatory Explanations

- Public interest theory of regulation
- Private interest theory of regulation

Campaign Contributions from the Financial Sector



Source: OpenSecrets

Regulatory Explanations

- Public interest theory of regulation
- Private interest theory of regulation
- Ideology

Regulatory Explanations

- Public interest theory of regulation
- Private interest theory of regulation
- Ideology
- Regulatory Cycle

Causal Direction

Long-Term Perspective

Business Cycles

Motives of (Financial) Regulation

Tranquil Times

- Gramm-Leach-Bliley Act
- Commodity Futures Modernization Act of 2000
- American Dream Downpayment Act passed in 2003

Financial Crises

- Financial Institutions Reform, Recovery, and Enforcement Act of 1989
- Emergency Economic Stabilization Act
- Dodd-Frank Wall Street Reform and Consumer Protection Act

- Since 1988
- Roll Call Records
- Campaign contributions
- Ideology
- GDP growth
- Constituency Interests

Discrete dependent variable regression

$$V_{iB} = \alpha + \beta_1 CC_i + \beta_2 DWnom_i + \beta_3 GDP_s + \beta_4 PopFinance_i \\ + \gamma controls_{iB} + s_i + \varepsilon$$

Political Variables as control

Table: Regressions Results - Deregulation

	(1) LPM b/se	(2) MFX Probit b/se	(3) MFX Logit b/se
In(Campaign Contributions from Finance)	0.0584*** (0.01)	0.0629*** (0.01)	0.00994*** (0.00)
Ideology	1.315*** (0.19)	1.311*** (0.20)	0.221** (0.10)
Real GDP growth	0.0932*** (0.00)	0.0940*** (0.00)	0.0154** (0.01)
Fraction Population working in Finance, Insurance and Real Estate	3.261*** (1.08)	3.526*** (1.17)	0.602*** (0.21)
Constant	-0.581*** (0.13)		
Political Controls	Yes	Yes	Yes
Fixed Effects	Yes	Yes	Yes
R-sqr	0.116		
N	6895	6895	6752

A ***/** next to coefficient indicates significance at the 10/5/1% level.

Table: Regressions Results - Deregulatory Bills

	(1)	(2)	(3)
	LPM	MFX Probit	MFX Logit
	b/se	b/se	b/se
In(Campaign Contributions from Finance)	0.0707*** (0.01)	0.0688*** (0.01)	0.0682*** (0.01)
Ideology	-0.0299* (0.02)	-0.0300** (0.01)	-0.0350** (0.01)
Real GDP growth	0.0112*** (0.00)	0.0116*** (0.00)	0.0116*** (0.00)
Fraction Population working in Finance, Insurance and Real Estate	-1.305*** (0.36)	-1.270*** (0.34)	-1.276*** (0.34)
Constant	0.0969 (0.08)		
Fixed Effects	No	No	No
R-sqr	0.044		
N	4055	4055	4055

A ***/** next to coefficient indicates significance at the 10/5/1% level.

Table: Regressions Results - Regulatory Bills

	(1)	(2)	(3)
	LPM	MFX Probit	MFX Logit
	b/se	b/se	b/se
In(Campaign Contributions from Finance)	-0.00514 (0.01)	0.00174 (0.01)	-0.000479 (0.01)
Ideology	-0.262*** (0.02)	-0.238*** (0.02)	-0.243*** (0.02)
Real GDP growth	0.0398*** (0.01)	0.0366*** (0.01)	0.0401*** (0.01)
Fraction Population working in Finance, Insurance and Real Estate	-0.600 (0.45)	-0.556 (0.42)	-0.477 (0.42)
Constant	0.921*** (0.12)		
Fixed Effects	No	No	No
R-sqr	0.031		
N	2840	2840	2840

A ***/*** next to coefficient indicates significance at the 10/5/1% level.

Table: Regressions Results - Switching

	(1)	(2)	(3)	(4)	(5)	(6)
	Switching	Switching	Switching	Switching	Switching	Switching
	b/se	MFX Probit b/se	MFX Logit b/se	b/se	MFX Probit b/se	MFX Logit b/se
In(Campaign Contributions from Finance)	0.167*** (0.04)	0.162*** (0.04)	0.158*** (0.04)	0.166*** (0.04)	0.156*** (0.04)	0.151*** (0.04)
Real GDP growth	-0.00890 (0.02)	-0.00753 (0.02)	-0.00705 (0.02)	-0.00582 (0.02)	-0.00374 (0.02)	-0.00251 (0.02)
Fraction Population working in Finance, Insurance and Real Estate	-4.078** (1.93)	-3.567** (1.72)	-3.627** (1.70)	-4.246** (1.97)	-3.756** (1.75)	-3.891** (1.72)
Constant	-0.826* (0.46)			-0.814* (0.49)		
Political Controls	No	No	No	Yes	Yes	Yes
R-sqr	0.109			0.122		
Pseudo R-sqr						
N	183	183	183	183	183	183

A */**/** next to coefficient indicates significance at the 10/5/1% level.

Table: Regressions Results Split by Party

	(1) LPM Republicans b/se	(2) MFX Probit Republicans b/se	(3) MFX Logit Republicans b/se	(4) LPM Democrats b/se	(5) MFX Probit Democrats b/se	(6) MFX Logit Democrats b/se
In(Campaign Contributions from Finance)	0.103*** (0.01)	0.113*** (0.01)	0.0000547*** (0.00)	0.0137 (0.01)	0.0163 (0.01)	0.00461 (0.00)
Ideology	1.282*** (0.21)	1.287*** (0.22)	0.000612*** (0.00)	-0.267 (0.50)	-0.233 (0.49)	-0.0841 (0.10)
Real GDP growth	0.0870*** (0.01)	0.0913*** (0.01)	0.0000435*** (0.00)	0.103*** (0.01)	0.101*** (0.01)	0.0346* (0.02)
Fraction Population working in Finance, Insurance and Real Estate	2.525 (1.54)	2.953* (1.66)	0.00152** (0.00)	3.955** (1.56)	4.130** (1.62)	1.397* (0.72)
Constant	-1.536*** (0.19)			-0.0739 (0.23)		
Political Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
R-sqr	0.130			0.121		
N	3551	3551	3492	3344	3344	3260

A ***/** next to coefficient indicates significance at the 10/5/1% level.

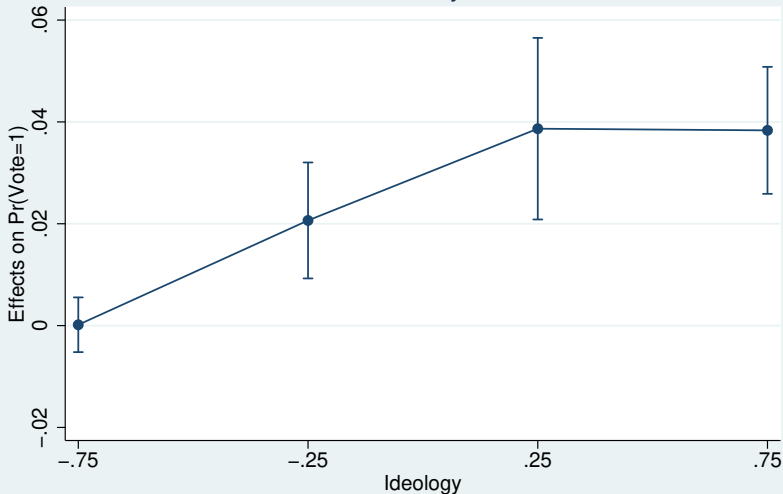
Table: Regressions Results - Interaction Terms

	(1)	(2)	(3)	(4)	(5)	(6)
	Vote	Vote	Vote	Vote	Vote	Vote
	b/se	b/se	b/se	b/se	b/se	b/se
In(Campaign Contributions from Finance)	0.0388*** (0.01)	0.0500*** (0.01)	0.0483*** (0.01)	0.0597*** (0.01)	0.0396*** (0.01)	0.0514*** (0.01)
Ideology	-0.909*** (0.14)	-0.124 (0.31)	0.165*** (0.01)	1.205*** (0.20)	-0.771*** (0.14)	-0.129 (0.30)
Real GDP growth	0.0756*** (0.00)	0.0928*** (0.00)	0.0804*** (0.00)	0.0967*** (0.00)	0.0796*** (0.00)	0.0954*** (0.00)
Fraction Population working in Finance, Insurance and Real Estate	-0.436 (0.29)	3.122*** (1.07)	-0.285 (0.27)	3.183*** (1.07)	-0.504* (0.28)	3.073*** (1.07)
(ln(Campaign Contributions)) x (Ideology Score)	0.0909*** (0.01)	0.108*** (0.02)			0.0807*** (0.01)	0.102*** (0.02)
(Ideology Score) x (Real GDP growth)			-0.0353*** (0.01)	-0.0235*** (0.01)	-0.0284*** (0.01)	-0.0174** (0.01)
Constant	0.0787 (0.07)	-0.453*** (0.13)	-0.0382 (0.07)	-0.575*** (0.13)	0.0724 (0.07)	-0.456*** (0.13)
Political Controls	No	Yes	No	Yes	No	Yes
Fixed Effects	No	Yes	No	Yes	No	Yes
R-sqr	0.110	0.122	0.105	0.117	0.111	0.123
N	6895	6895	6895	6895	6895	6895

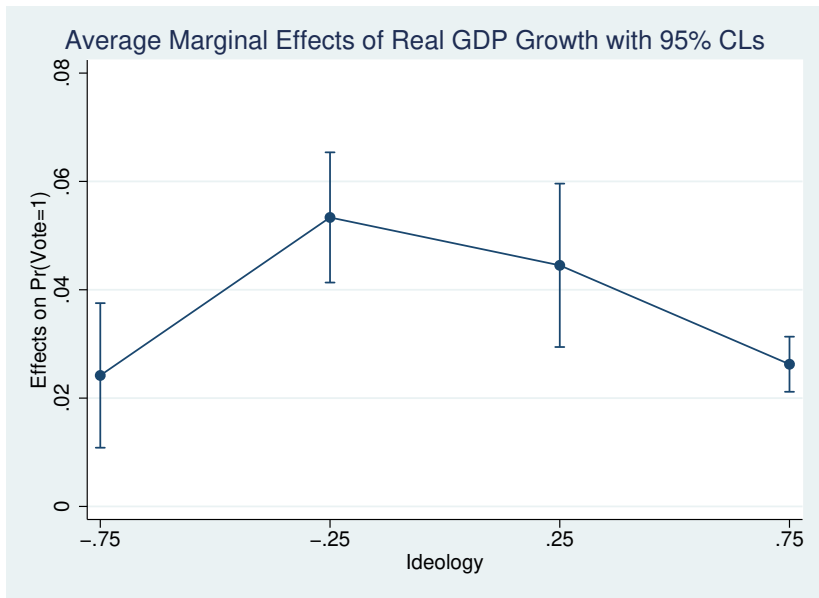
A */**/** next to coefficient indicates significance at the 10/5/1% level.

Results

Average Marginal Effects of the Ln of Campaign Contributions from the Financial Industry with 95% CLs



Results



Results - Robustness Check

Table: Regressions Results - Very Important Bills

	(1)	(2)	(3)	(4)	(5)	(6)
	LPM b/se	MFX Probit b/se	MFX Logit b/se	LPM b/se	MFX Probit b/se	MFX Logit b/se
In(Campaign Contributions from Finance)	0.0311*** (0.01)	0.0309 (0.02)	0.0316*** (0.01)	0.0400*** (0.01)	0.0426*** (0.01)	0.00821*** (0.00)
Ideology	0.0982*** (0.02)	0.100** (0.05)	0.0971*** (0.02)	0.312** (0.15)	0.326** (0.14)	0.0732 (0.07)
Real GDP growth	0.0722*** (0.00)	0.0728*** (0.02)	0.0743*** (0.00)	0.0924*** (0.00)	0.0912*** (0.00)	0.0196* (0.01)
Fraction Population working in Finance, Insurance and Real Estate	-0.392 (0.30)	-0.380 (0.32)	-0.400 (0.39)	2.590** (1.10)	2.657** (1.04)	0.596* (0.33)
Constant	0.158** (0.08)			-0.201 (0.15)		
Political Controls	No	No	No	Yes	Yes	Yes
Fixed Effects	No	No	No	Yes	Yes	Yes
R-sqr	0.110			0.118		
Pseudo R-sqr						
N	3418	3418	3418	3145	3145	3051

A */**/** next to coefficient indicates significance at the 10/5/1% level.

Results - Robustness Check

Table: Regressions Results - Contributions from outside of Finance

	(1)	(2)
	All	All loser
	b/se	b/se
Ideology	1.434*** (0.22)	1.220*** (0.21)
Real GDP growth	0.0906*** (0.00)	0.0155*** (0.01)
Fraction Population working in Finance, Insurance and Real Estate	3.504*** (1.07)	-1.700 (1.37)
Total Campaign Contributions from Outside of Finance in the Last Election Cycle	5.63e-09 (0.00)	7.08e-09 (0.00)
Constant	0.0465 (0.08)	0.715*** (0.10)
Political Controls	Yes	Yes
Fixed Effects	Yes	Yes
R-sqr	0.108	0.028
N	6895	4055

A **/**/*** next to coefficient indicates significance at the 10/5/1% level.

Results - Robustness Check

Table: Regressions Results - Contributions

	(1)	(2)	(3)	(4)	(5)
	Vote	Vote	Vote	Vote	Vote
	b/se	b/se	b/se	b/se	b/se
Ideology	1.552*** (0.33)	1.509*** (0.33)	1.476*** (0.33)	1.344*** (0.33)	1.434*** (0.21)
Real GDP growth	0.0902*** (0.01)	0.0902*** (0.01)	0.0918*** (0.01)	0.0948*** (0.01)	0.0869*** (0.00)
Fraction Population working in Finance, Insurance and Real Estate	2.727 (2.14)	2.926 (2.15)	2.866 (2.13)	3.114 (2.14)	3.405*** (1.03)
ln(Average Campaign Contributions from Finance in the last 3 cycles)	0.0459** (0.02)				
ln(Average Campaign Contributions from Finance in all preceding cycles)		0.0754** (0.03)			
ln(Total Campaign Contributions from Finance in the last 3 cycles)			0.0539** (0.02)		
ln(Total Campaign Contributions from Finance in all preceding cycles)				0.0621*** (0.02)	
Percentage of Campaign Contributions from Finance in the last cycle					0.308*** (0.03)
Constant	-0.361 (0.28)	-0.684* (0.41)	-0.510* (0.30)	-0.645** (0.31)	0.0155 (0.07)
Political Controls	Yes	Yes	Yes	Yes	Yes
Fixed Effects	Yes	Yes	Yes	Yes	Yes
R-sqr	0.097	0.098	0.100	0.102	0.116
N	2417	2417	2417	2417	6895

Results - Robustness Check

Table: Regressions Results - Contributions - Deregulatory Bills

	(1)	(2)	(3)	(4)	(5)
	Vote	Vote	Vote	Vote	Vote
	b/se	b/se	b/se	b/se	b/se
Ideology	1.029*** (0.30)	1.022*** (0.31)	0.865*** (0.30)	0.617** (0.30)	1.201*** (0.20)
Real GDP growth	0.00414 (0.01)	0.00293 (0.01)	0.00678 (0.01)	0.0113 (0.01)	0.0136** (0.01)
Fraction Population working in Finance, Insurance and Real Estate	-1.913 (2.82)	-1.543 (2.88)	-1.443 (2.77)	-0.914 (2.72)	-1.781 (1.38)
ln(Average Campaign Contributions from Finance in the last 3 cycles)	0.0912*** (0.02)				
ln(Average Campaign Contributions from Finance in all preceding cycles)		0.126*** (0.03)			
ln(Total Campaign Contributions from Finance in the last 3 cycles)			0.105*** (0.02)		
ln(Total Campaign Contributions from Finance in all preceding cycles)				0.113*** (0.02)	
Percentage of Campaign Contributions from Finance in the last cycle					0.136*** (0.02)
Constant	-0.208 (0.28)	-0.591 (0.36)	-0.493* (0.29)	-0.642** (0.28)	0.710*** (0.10)
Political Controls	Yes	Yes	Yes	Yes	Yes
Fixed Effects	Yes	Yes	Yes	Yes	Yes
R-sqr	0.072	0.071	0.089	0.103	0.033

Production of Financial Regulation

Campaign Contributions

Regulatory Cycle

THANK YOU FOR YOUR ATTENTION!

Market Structure of the Banking Industry

