

**TWO ESSAYS ON POLITICAL INFLUENCE AND THE REGULATION OF
FINANCIAL MARKETS**

by

Doug Eckel

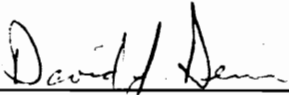
Dissertation submitted to the Faculty of the
Virginia Polytechnic Institute and State University
in partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

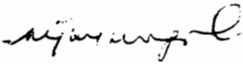
in

Finance, Insurance, and Business Law

APPROVED:



David Denis, Co-Chair



Vijay Singal



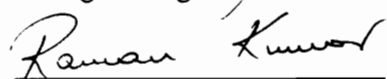
Dilip Shome



John Easterwood, Co-Chair



George Morgan



Raman Kumar

May, 1996
Blacksburg, Virginia

Key Words: Regulation, Financial Markets, Financial Institutions, Corporate Control

TWO ESSAYS ON POLITICAL INFLUENCE AND THE REGULATION OF OF FINANCIAL MARKETS

by

Doug Eckel

ABSTRACT

I examine two potential instances of rent-seeking in financial markets in the 1980s. In the first essay I test whether managers engage in political activity designed to influence federal regulation of the market for corporate control. In the second, I examine whether firms in the financial services sector attempt to affect bank deregulation.

Using Federal Election Commission data, I find campaign contributions by corporate political action committees (PACs) are negatively related to levels of inside ownership, my main proxy for managerial vulnerability to hostile tender offers. Contribution patterns for firms with less than 20% insider ownership are relatively highly correlated, and differ from those of firms with greater than 20% inside ownership. Low inside ownership firms have slightly higher levels of contributions to legislators on particular House and Senate committees proposing relevant legislation. However, when I analyse the impact of contributions on legislator support for regulation I find no statistical support for a theory of vote-buying. I conclude that corporate political behavior is tied to levels of inside ownership, and comprises an

alternate index of manager-shareholder conflict.

Using a similar approach to analyse the financial services industry, I also find significant patterns in political action committee (PAC) campaign contributions for depository (commercial bank and thrift) and non-depository (brokerage and insurance) sectors of the financial services industry during the 98th Congress (1983-84). Contributions by depository firm PACs appear not only to purchase access to legislators serving on important banking committees crucial to their interests, but are also a significant determinant of votes for repealing sections of the Glass-Steagall Act. Non-depository contributions do not appear to influence votes directly, even though the brokerage and insurance sectors effectively lobbied House Banking Committee chairman Fernand St Germain to enforce the regulatory status quo. When I measure the rents at stake in the legislation using a two-factor market model event study approach, I find that the passage of legislation in the Senate had a positive affect on depository firm returns, implying the sector's lobbying effort was justified. However non-depository PACs lobbied just as extensively, and did not experience significant abnormal returns over the same event period, even though this round of deregulation should have been a zero-sum game between the affected sectors of the industry. I then measure the correlation between the market value impacts of new legislation and contribution amounts for individual firms within the sectors. I find rents are correlated with political activity, even for firms in the non-depository sectors.

Acknowledgements

I wish to thank Dave Denis and John Easterwood, the Co-Chairs of my Committee, for showing me what it means to do careful research. If I do not succeed in achieving a high level of quality in my dissertation it is no fault of theirs. I also wish to thank Corinne Bronfman, Henry Chappell, Michael Ferguson, Iannis Ionnides, Ed Kane, Nancy Lutz, Chuck Michalopoulos, George Morgan, Meir Schneller, Doug Patterson, Dilip Shome, Vijay Singal, Thomas Stratman, Gordon Tullock, and Mike Weisbach for helpful comments and encouragement. My work improved tremendously during a year's residence at the Department of Finance at the University of Arizona at Tucson, and for their hospitality I thank Ed Dyl, Department Head, and everyone else in the department. I most want to thank my wife Catherine, without whose help and patience I would not have been able to complete my doctorate, and my son Chris, and daughter Alice, for being a constant reminder of what is truly important.

TABLE OF CONTENTS

| | PAGE |
|--|------|
| Abstract | ii |
| Acknowledgements | iv |
| Table of Contents | v |
| List of Tables | vi |
| Chapter 1: Introduction | 1 |
| Chapter 2: Political Influence in Legislative Decision-Making | 7 |
| Chapter 3: Campaign Money and Antitakeover Regulation in the 99th Congress (1985-1986) | 22 |
| Chapter 4: Campaign Money, Exclusionary Rents, and the Garn - St Germain Standoff on Bank Deregulation in the 98th Congress (1983-1984) | 85 |
| Chapter 5: Conclusion | 136 |
| References | 138 |
| Curriculum Vitae | 153 |

LIST OF TABLES

PAGE

Chapter 3: Campaign Money and Antitakeover Regulation in the 99th Congress (1985-86)

| | |
|---|----|
| Table 1: Average Firm Campaign Contributions per Legislator | 72 |
| Table 2: Total PAC Campaign Contributions by Sponsoring Firm Market Value Quartile and Inside Ownership, Sample Summary Statistics, 1983-84 Election Cycle | 73 |
| Table 3: Total PAC Campaign Contributions by Sponsoring Firm Market Value Quartile and Inside Ownership, Sample Summary Statistics, 1981-82 and 1983-84 Election Cycles | 74 |
| Table 4: Sample Summary Statistics for Variables in Cross-sectional Analysis, 1983-84 Election Cycle | 75 |
| Table 5: Cross-sectional Determinants of Sponsorship of a Corporate PAC, 1983-84 Election Cycle, Probit Regressions | 76 |
| Table 6: Cross-sectional Determinants of Campaign Contributions by Sample Firms, 1983-84 Election Cycle, Tobit Regressions | 78 |
| Table 7: Determinants of Mean PAC Campaign Contributions per Legislator, by Sponsored Firm Market Quartile and Inside Ownership Level, Tobit Regressions | 80 |
| Table 7A: Tests of Differences in Mean PAC Contributions per Legislator, by Sponsored Firm Market Quartile and Inside Ownership Level, Ordinary Least Squares, F-tests for significant Differences between Group Coefficients | 82 |
| Table 8: Determinants of Mean PAC Campaign Contributions per Legislator, by | |

| | |
|--|-----|
| Sponsored Firm Market Quartile with Low Inside Ownership Level, 1983-84 vs. 1981-82 Election Cycles, Tobit Regressions | 83 |
| Table 9: Contributions and Support of Antitakeover Legislation, by both Firm and Legislator Characteristics, Two-stage-least-squares | 85 |
| | |
| Chapter 4: Campaign Money, Exclusionary Rents, and the Garn - St Germain Standoff in the 98th Congress (1983-84) | |
| Table 1A: Sample Descriptive Characteristics | 128 |
| Table 1B: Correlation Coefficients for Mean Contributions per Legislator | 126 |
| Table 1C: Summary Statistics, Selected Variables | 127 |
| Table 2: Mean PAC Contribution Determinants by PAC Category, 1983-84, Tobit Regressions | 129 |
| Table 3: Mean PAC Contributions by Interest Group, 1983-84, Tobit Regressions | 130 |
| Table 4: Mean PAC Contribution Determinants, 1983-84, Depository and Non- depository Interest Groups, Tobit Regressions | 131 |
| Table 5: Mean PAC Contribution and Vote Determinants, 1983-84, Depository and Non-depository Interest Groups, Senate and House Deregulation Votes Combined, Two-stage-least-squares | 132 |
| Table 6: Mean PAC Contribution and Vote Determinants, 1983-84, Depository and Insurance Interest Groups, Senate Insurance Amendment Bank Deregulation Vote, Two-stage-least-square | 133 |
| Table 7: Abnormal Returns and Significance Tests for Industry Sector Portfolios Around Selected Announcement Dates, Senate and House Bank Deregulation Bills, Two-factor Market Model Approach | 134 |
| Table 8: Regressions of Changes in Firm Market Value on Contribution Levels for Individual Firms around Selected Announcement Dates, Senate and House Banking Committees, Bank Deregulation, 1983-84 | 136 |

CHAPTER 1: Introduction

I was first motivated to study political influence as a determinant of antitakeover regulation by the work on agency theory in finance¹, which recognizes the divergence of interests between managers and owners of corporations. Many studies in finance explore both the motives and wealth impacts of state and federal statutes governing corporate control activities (e.g. Karpoff and Malatesta (1989) et al.), and political activity clearly plays a role in the creation of these laws. However, agency theory as used in finance is also easily extended to encompass conflict between participants in other financial markets and those who are the agents of the markets' design and operation. Work in financial services sector regulation by Kane and others explores the inefficiencies in the industry resulting from conflict between owners, managers, regulators, politicians, and the public. In fact, the concept of agency is closely related to the larger economic concept of rent-seeking, a powerful theory explaining inefficient economic outcomes in markets. For example, agency conflict in the firm exists in the form of rents managers seek to capture from a less-than-competitive labor market.

The assumption that our financial institutions, e.g. corporate law, federal regulation of the financial system, and financial asset trading systems, are neutral,

¹ see Jensen's (1993) Presidential Address for a good outline of the logical extension of agency theory into a concern with external control systems, and institutional design, including regulation.

efficient evolutionary outcomes in an academic sense, ignores the reasonable observation that those institutions are controlled to varying degrees by the actors in the markets we are studying. These actors represent special interests who seek to secure rents in those markets, where economic rents represent returns in excess of those required to induce market participation. Thus the institutions are not neutral, efficient adaptations, functionally exogenous to the analysis, but jointly determined with the financial outcomes we discover. Given this insight it is natural to examine the processes through which our institutions are created, and use evidence of different levels of interest in the design of institutions as a key to deciding who benefits from them, i.e. who is seeking these rents, are they successful, and why.

All governmental action can be characterised as economic transfers of some form. When market participants utilize governmental intervention to obtain higher payoffs, or capture governmental regulation of their industry, they are seeking rents from less than competitive conditions. I examine two potential instances of rent-seeking in financial markets in the 1980s. In the first study, I investigate Jensen's (1990) assertion that managers engaged in political activity designed to influence federal regulation of the market for corporate control. In the second, I try to determine if there are any links between prospective rents for firms in the financial services sector and their level of campaign contributions to legislators drafting bills pertaining to bank deregulation. In both instances I identify an empirical model of political influence

(outlined in Chapter 2), which uses data from Federal Election Commission Campaign Expenditure reports. In my essays, I merge this corporate political action committee (PAC) contribution data with relevant financial data to estimate cross-sectional determinants of corporate contributions, both across firms with different exposure to agency costs, and across the different, and competing, sectors of the financial services industry.

In Chapter 3, I focus on managers as rent-seekers. My paper contributes to the existing finance literature in two ways: first, I treat managers as a political interest group cutting across sectoral interests; and, second, I examine the genesis of federal rather than state regulation. Political scientists investigate corporate political activity by assuming that managers act in the best interests of shareholders; in finance (starting with Jensen and Meckling (1976)), this assumption is treated with skepticism. Managers' interests diverge from stockholders' interests in the market for corporate control when managerial wealth is skewed toward salary and bonuses and away from direct equity ownership in the firm. I test whether a group of managers, who are hypothetically unified by their "vulnerability" to hostile tender offers, use their associated corporate PACs to influence votes on regulation of the control market. Also, although considerable research documents the origins and impact of state antitakeover regulation on control, federal regulation has received less attention. During the early 1980's managers sought federal intervention in the market for

corporate control, and engaged in systematic lobbying activity at the federal level. It is possible that managers organized themselves into a distinct interest group through ad hoc lobbying organizations (such as the Business Roundtable), social networks, and interlocking directorates.² I find that during this period the PAC's of firms with managers who have low equity ownership, and who are more vulnerable to takeover attempts as a result, are more likely to have PACs, and contribute more heavily to legislative campaigns. It is not clear, however, that PACs sponsored by firms vulnerable to takeovers successfully lobby for votes on antitakeover legislation, using the voting model derived from the political science literature. Thus although variables measuring the extent of potential conflict between managers and owners predict the extent of political activity of the firm, I do not establish a direct connection between this lobbying and federal regulatory outcomes.

The fourth chapter of my thesis contains an analysis of the lobbying efforts of sectors of the financial services industry. During the second session of the 98th Congress (1984), the Republican-controlled Senate Banking Committee formulated a second round of bank deregulation following on the Garn - St Germain Act of 1982. The Senate bill dismantled some of the regulatory barriers between the rival banking, insurance, and brokerage sectors, repealing Glass-Steagall. Political campaign contributions by these different sectors may have created an impasse in efforts to

² In this way my study complements other work on interest group behavior, and draws upon Olsen (1965) and Becker (1983) as well.

reconcile this deregulation with legislation offered by the Democratically-controlled House of Representatives. I first attempt to document different patterns of contributions, and find that the various sectors contribute to legislators based on their differential abilities to represent their interests in the legislative process. I then compare lobbying effort with the rents at stake in the legislation, utilizing event study methods to determine the impacts of various information events, primarily votes in the House and Senate, on the stock prices of portfolios of firms representing the affected sectoral interest groups. I have found that the banking and thrift sector samples in my analysis respond positively to the deregulation bill proposed by the Senate, but that the brokerage and insurance samples do not respond as negatively as expected, given the assumption of a zero-sum game in the regulation. When I construct a sample that matches firms in the event study with firms in the campaign expenditure analysis, however, I find evidence that firms from both groups with more at stake in the legislation are correspondingly more active politically. This establishes a firm connection between these measures of the rents at stake and active lobbying.

Political determinants appear to play an important role in corporate legal structure, barriers to entry in the financial services sector, and the institutional framework of other financial systems such as equity markets. In fact, financial markets are one of our most heavily regulated industries. By merging concerns found in finance, economics, political science, and sociology, I attempt in this research to find

direct evidence that outcomes in financial markets are a result of political activity as opposed to efficiency considerations.

CHAPTER 2: Political Influence in Legislative Decision-Making

I. Introduction

The main goal of this research is to apply established methods for tracking political influence to the study of outcomes in financial markets. The Public Choice approach has focused on estimating the determinants of legislative voting behavior, viewing inputs to this political process from an economic perspective. Many studies expand these concerns with voting behavior to other activities pursued at the committee level, e.g. bill sponsorship, and other groundwork done to support a certain legislative program. The theoretical framework for this approach suggests that firms will be politically active and fund lobbying efforts as long as the marginal returns to such behavior exceed the marginal costs, absent any other complicating factors such as free-riding behavior. If this is true, tracing corporate lobbying activity provides a method for estimating a lower bound of the economic benefits to the firm, industry, or other interest group, to be derived from such political activity.

In this chapter I outline the technique I use for measuring political influence. I first discuss campaign finance and the constraints on corporate political action committee (PAC) contributions. I then review the literature on influence, and describe the empirical influence model used in the subsequent analyses. Details on the specific

application of the model, including reviews of the data sources for the two studies, are contained in the analysis of antitakeover legislation (Chapter 3), and the bank deregulation analysis (Chapter 4).

II. Campaign Finance

The Federal Election Commission (FEC) was created by Congress to monitor spending by candidates and interest groups in elections for congress and the presidency. All contributions by groups to a specific candidate must be funnelled through a "political action committee" (PAC) registered with the FEC. PACs are allowed a maximum contribution limit of \$10,000 per candidate per election cycle (lasting two years). This limit includes all expenditures on behalf of a candidate as well. This campaign reform legislation has served to make corporate, labor, and trade group contributions much more visible than previously, and thus subject to some rigorous analysis.

Since 1977, corporate PACs have comprised the largest single group of PACs registered with the Federal Election Commission (FEC). In the years between 1974 and 1984, the number of corporate PACs increased by 1,550. By mid-1983, 298 of the Fortune 500 companies had established PACs (Matasar (1986)). Sabato (1986) notes that corporate PAC contributions grew from a total of about \$11 million in 1972, to about \$155 million in 1982.

Most studies that use campaign contribution data to trace lobbying effort³ begin with the assumption that corporate PACs donate primarily to support sectoral or firm interests. It is this conventional view that is adopted in the second of the two essays in my dissertation. However, according to studies of corporate PACs based primarily on surveys (Handler and Mulkern, 1982, Sabato, 1984, Eismeier and Pollock, 1988), managers often play a large role in the formation and operation of the PAC associated with a particular company. Handler and Mulkern (1982) list five reasons, in order of importance, why corporations in their survey established PACs:

- (1) Management recognition of the significant impact of government on corporate operations;
- (2) the need for funding resources for an established Washington lobbyist connected with the firm;
- (3) enhancement of managerial employee civic responsibility;
- (4) peer pressure on CEO's from firms with already established PACs; and,
- (5) a need to counterbalance the effects of competing PACs, especially union PACs.

They note that under reason (1) above, a prime reason for sponsorship is "securing more favorable outcomes...through enhancing access to congressional influentials." (P. 61) In their summary of overall CEO influence on sponsored PACs they state that in a third of the PACs in their sample, CEOs were the prime mover, or among the founding group, and note that, in any event, their authorization is essential.

Sabato notes that "very few corporate PAC boards include any representatives

³ see Chappell (1981), and Stratman (1992). Most analyses of this type focus on legislation affecting clearly defined constituent groups.

of the stockholders--a somewhat surprising fact since stockholders are theoretically the owners of the stock companies". (Sabato, 1986, p. 35) He goes on to say that "corporate PACs can hardly be considered showcases of democracy either. In a few PACs the chief executive officers completely rule the roost, and in many the CEOs have inordinate influence on PAC decisions". (Sabato, 1986, p. 167) Epstein (1969) speculates on the conflict between management and ownership from a political science perspective. He notes that the political interests of the corporation need not invariably coincide with those of the leading officers and directors. (Epstein, 1969, p.12) Humphries (1990) mentions that corporate PAC "resources can be used for political purposes without any form of consultation with the vast majority of the organization's members". (Humphries, 1990, p. 353)

In general, however, there is little systematic investigation into the notion that management might administer a corporate PAC in ways that diverge from the interests of the owners of the corporation. The implicit assumption is that management's interests are aligned with those of the firm in general, and that these interests correspond with those of other firms within the same industry. There is little discrimination between competing political perspectives either across firms or within the firm in the literature. I use both of these approaches within this dissertation; I first look for evidence that managers' interests motivate corporate PAC contribution patterns, and diverge from shareholder interests with respect to antitakeover legislation,

and in the last chapter, perform the more conventional analysis assuming corporate political activity is motivated by industry interests.

One problem with this specific empirical approach is that campaign contributions comprise only the measurable portion of lobbying activity by corporations, and are often economically insignificant when measured either against total corporate profits or average individual campaign expenditures for recent election cycles. Techniques that rely on an analysis of patterns of registered campaign contributions must make the implicit assumption that contributions are highly correlated with unmeasurable activity, such as unreported in-kind remuneration, speaking or appearance fees, and even unreported bribes. The often low recorded contribution amounts appear on the surface to be insignificant and unlikely to represent a legitimate form of contractual payment to the legislators who receive them.⁴ An alternative view of campaign contributions⁵, and one which provides a basis for the assumption of correlation with unobserved lobbying payments, is that they comprise only the visible component of a wide range of lobbying activities that intensify around crucial

⁴ In the literature on rent-seeking, the problem of measuring the total cost of unproductive rent-seeking activities, including all of these unreported expenditures influencing political activities, has not been solved (see Rowley, C., R. Tollison, G. Tullock eds., 1988, The Political Economy of Rent Seeking, Kluwer Academic Publishers, Boston.)

⁵ This line of reasoning was suggested to me by Ed Kane, who is skeptical that politicians would actually sell votes for the low amounts of money involved in registered campaign contributions.

legislative events. If viewed in this way, campaign contributions may be thought of as an option on future legislative services, which are "paid for" at a later date with less visible remuneration. However, whether you view contributions as amounts probably correlated with larger invisible payments, or contingent claims on access to important legislative actors, if the patterns of these contributions differ systematically in ways which support the hypothesis of rational lobbying activity, one can assume that these patterns provide some evidence on the value of legislative influence.

III. Literature on Influence

The working model of campaign contributions and influence used for my analysis contains the assumption that PACs associated with corporations and trade associations provide contributions to candidates as quid-pro-quo for services to be rendered at a later date. In Morton and Cameron's (1992) terminology contributions can be separated into those that are position-induced (ideology, party affiliation, etc.) and service-induced.⁶ They conclude that "models of policy services that ignore the technology of service provision (i.e. how political institutions are actually organized and operate, committee, sponsorship, etc.) cannot be very convincing." As one of

⁶ A number of articles commenting on this include: Hall and Wayman (1990), who argue that contributions buy activity rather than votes; Grier and Munger (1991) (see below), who argue that contributions go to legislators on relevant committees; Poole and Romer (1985) who find support for ideology as a determinant of contributions; see also Keim and Zardkoohi (1988).

their "stylized facts" gleaned from the empirical evidence, they conclude that "campaign contributions have little discernable impact in the aggregate on roll-call votes, but appear to affect voting on particularized, less publically visible issues, and may influence the allocation of legislative time to issues." In their model, contributors focus on candidates, and are largely prospective in orientation, buying contingent contracts based on a willingness-to-pay schedule for services. These contingent service claims are purchased according to the following model:

$$G_i(\theta) = p_i R(s_i, \theta) - C_i$$

where G is the expected gain from contributing, there is a distribution of interest groups F , p is the expected probability the candidate will be elected, $R(s)$ is the private return from a particular service, and C is the cost to the interest group (the contribution)⁷. PACs will donate until the marginal expected returns are equal to the marginal costs. It is important to recognize that in this model PACs will take into consideration the probability of the candidate's being elected within the election cycle, and will spend more funds on the sure winner and less on the long-shot candidate. This approach focuses entirely on the service-induced rationale, even though others have

⁷ In this framework, the establishment and use of PACs may have lowered the costs of contributing for corporations.

suggested that PACs pay attention to their impact on election outcomes⁸.

Candidates provide services which are costly and charge accordingly. They have neither a monopoly on legislative influence sales, nor is the market perfectly competitive, and there are some constraints on the amount of legislative services they can supply. PACs donate to those candidates who have the lowest costs of providing legislative services, and who can thus provide them at the lowest price. These legislators are low-cost because they are the most powerful (chair important committees, have seniority, incumbency), are the most ideologically sympathetic (high Chamber of Commerce, or business rating), and have a supportive constituency (measured with some proxy for constituent preferences). Candidates can also have a high probability of winning (measured by incumbency or previous vote margin).

In general, corporate PACs will contribute to those legislators who can provide low cost influence, and will donate in return for activity or votes in support of major legislation governing the firm and the industry. However, if managers control expenditures of funds by their respective corporate PACs, as suggested by the political science survey literature (see Sabato, 1986), then they might direct corporate contributions to legislators who would support their specific interests, especially with regard to regulation of the market for corporate control. The analysis in Chapter 3 implicitly relies on the hypothesis that managers control PAC funds, and tests this

⁸ e.g. Poole and Romer (1985) found that contributions are significantly negatively related to previous election margins.

hypothesis jointly with the corporate control hypothesis.

Morton and Cameron conclude that research on influence has to clearly identify what type of service product contributors are seeking, whether it is private or public, policy or non-policy. If the service is public, you must consider the free-rider, and collective-action problems, i.e. in competitive industries with many firms, political action to enforce cartelization may not be cost-effective. Similarly, firms in highly concentrated industries may not need to resort to public regulation to cartelize, and may be less politically active as a result.⁹ In the financial services industry, as in many industries, this collective action problem is ameliorated by trade associations and other forms of social organization.¹⁰

The empirical model used in the following chapters follows Chappell (1982). He focuses on methodological issues, and uses a simultaneous equation model for determining levels of influence from campaign contributions. The vote equation is a

⁹ Zardkoohi (1988) discusses the affect of concentration in an industry on the political activity in the industry, finds none, and suggests that anti-trust restrictions actually exacerbate lobbying activity by forcing industry members into the political arena to seek cartelization. Heywood (1988) finds that industrial concentration is associated with greater political influence. Grier et al. (1991) find an inverted u-shaped functional relationship; industries with low concentration suffering free-rider problems, and high concentration eliminating the need for cartelization based on public regulation.

¹⁰ I am taking my cue on this point from the sociological literature on interlocking directorates and power networks (see Mizruchi (1992, 1989), Burris (1991) for examples of this). The Business Roundtable, the primary lobbying organization for large corporations, may serve to organize individual firms into special interests (see Burch (1981)). Mintz and Schwartz (1985) show that financial firms play an important role in the coordination of corporate interests.

PROBIT model with a dichotomous dependent variable equal to 1 if the legislator sides for the interest in a specific roll-call vote. The TOBIT portion of the model is the contribution equation, where the dependent variable is restricted to being positive. The TOBIT equation contains explanatory variables dealing with power and likelihood of winning an election which do not figure in the voting equation, thus allowing the simultaneous estimation. Both equations include a set of exogenous variables which theoretically establish a candidate's initial position on an issue; contributions then cause shifts away from that particular position.¹¹

The vote (PROBIT) and contribution (TOBIT) equations are as follows:

$$\text{vote}_i = \text{contributions}_{ij} + \text{party}_i + \text{ideology (ACA)}_i + \text{appropriate constituent preference measure}_i$$

$$\text{contributions}_{ij} = \text{committee dummy}_i + \text{incumbency}_i + \text{previous vote margin}_i + \text{party}_i + \text{ideology}_i + \text{appropriate constituent preference measure}_i$$

where i = legislator i , and j = interest group or firm j . He estimates both the single equation approach and then the simultaneous, full-information maximum likelihood technique. His findings are that the single equation method often found contributions to be significant in situations where the full-information-maximum-likelihood

¹¹ Variables not in the model specification include: logrolling effects on voting patterns, vote-trading, some provision for punishment of those contributors who also give money to an opponent, other forms of contributions (unreported bribes, in-kind gifts), and most importantly, solicitation, or lack thereof, by candidates, although previous winning percentage might be an inverse proxy for this latter variable.

simultaneous-PROBIT-TOBIT approach did not, despite the fact that most of the signs were as predicted, and many of the "initial position" variables were significant. He concludes "we are generally unable to conclude that contributions have a significant impact on voting decisions."

Stratman (1992) also uses the Chappell model. He starts out by noting that few studies have found a connection between money and votes, i.e. negligible influence for campaign contributions. He goes on to analyse votes on subsidies to the farm sector, where the benefits are concentrated, using Chappell and others to construct his theoretic framework. He believes that the best test of the theory of influence comes from a situation where votes have a clear economic payoff to contributors, the benefits of the votes are concentrated, and costs are distributed throughout the electorate. Based on his theoretical framework, "contributors will donate money to a candidate's campaign until the expected gain from influencing the platform equals the marginal cost of contributing." In his model specification (full-information-maximum-likelihood simultaneous-PROBIT-TOBIT), he uses Chappell's format, relying on incumbency and some vote margin in the TOBIT equation to identify all the coefficients in the two equations. Contrary to Chappell, however, Stratman finds that "the elasticities associated with the PROBIT estimates show that Congressmen's voting behavior is most responsive to campaign contributions, followed by ideology and party affiliation." He finds that eight out of ten of the contribution coefficients (he separates his equations

by specific floor votes) are significant. He then estimates what the vote would have been without the contributions, and finds that two of the voting results would have changed outright.

Kau, Keenan, and Rubin (1982) and Kau and Rubin (1985) specify a different model from the Chappell-Stratman model. In their 1982 paper they attempt to find out which interest groups favored which laws, to understand the forces leading to the passage of laws with significant economic consequences. They find ideology is significant; labor usually favors intervention, business opposes. In their study, they use three equations in their simultaneous system: voting, contributions, and vote margin in last election, each describing the contribution of a different set of actors to the overall result, i.e. candidates, contributors, and voters. Their estimation technique is two-stage least squares. In their contribution equations (separated by type of interest group according to FEC distinctions) explanatory variables include: party, loser contributions, primary dummy, seniority.¹²

Poole and Romer (1985) use a single equation estimation technique to describe

¹² I have chosen to follow the Chappell-Stratman two equation approach in my work. The case can be made that previous winning margin (or percentage) is not jointly determined with votes and contributions due to the difference in time frame. For example, in my data set, previous winning percentage comes from elections in the years 1978, 1980, and 1982; for all of these time periods, legislator characteristics may have varied somewhat from those used in the estimation of the 1984 vote and contribution equations. Using previous winning percentage as predetermined by a separate set of variables treats it as an endogenously determined predictor of electoral success.

the sources of contributions¹³. They focus on ideology, defining a variable which is comprised of multiple interest group indices, rather than just one (e.g. Americans for Democratic Action, Chamber of Commerce, etc.). Among their findings: corporate PACs are relatively ideological, but pay less attention to party in their contributions; in their single equation explaining contributions, significant variables include ideology (conservative), seniority (they find in general that junior and very senior incumbents receive more contributions, in a u-shaped function), and prior vote (negatively related, the closer the election, the greater the contributions). They also found that the Budget, Interior and Insular Affairs, Interstate and Foreign Commerce, and Ways and Means were corporate PACs' most favored committee assignments.¹⁴

Grier and Munger (1991) model the effect of legislative institutions and constituent preferences on the abilities of incumbent legislators to serve specific interest groups. They find support for the view that committees are more powerful than originally thought, and that individual legislators have agenda setting and legislation drafting power which enables them to provide significant services to interest groups. In their model legislators maximize votes subject to constraints on work effort that can be devoted to specific policies and the contributions that flow from their action in those

¹³ Kau and Rubin (1985) comment on the problems with the single equation approach in the same issue of Public Choice.

¹⁴ They find, in particular, that milk cooperatives are very well organized and directed towards specific committees.

policies. "A legislator on an appropriate committee can provide policies desired by (an) interest group at a lower price," and "an interest group's contributions to legislators will be inversely related to the costs each legislator faces in producing policy for the group."

They separate contributors into interest groups, and then estimate the same regression equation for each one, noting the parameters will vary cross-sectionally. The equation they estimate is

$$\text{Contribution}_{ij} = B_0 + B_1(\text{last vote margin}_i) + B_2(\text{Freshman dummy}_i) + B_3(\text{Seniority}_i) + B_4(\text{Chamber of Commerce Vote Index}_i) + B_5(\text{Chamber of Commerce Vote Index}^2_i) + B_6(\text{Democrat}_i) + \text{Sum}_k[B_k(\text{Committee}_{ki})] + e_{ij}$$

where i = individual legislators, j = particular interest groups, and k = particular committee assignments. Their list of hypotheses for effect of membership on certain committees can be used in this study. They find the Chamber of Commerce vote score, along with other non-committee variables, and membership on Energy and Commerce, Public Works and Transportation, and Ways and Means significant for business interests. They look not only at differences cross-sectionally, across different interest groups, but also at changes in significance over time, using two election periods.

Hall and Wayman (1990) theorize that money does not buy votes, but rather effort to motivate the bias on committees (similar to Grier and Munger). Contributions bring about higher involvement in generating support for legislation, not just the

legislator's own vote on the issue. They use a two-stage-least-squares approach in their estimation. They include as a power variable leadership on the committee. Their dependent variable is "a simple scale score derived from a factor analysis of six activities: attendance, voting participation, speaking, offering amendments, role in authoring the legislation, and activity behind the scenes" (this last they apparently get from interviews.)¹⁵

IV. Conclusion

In the analyses which follow I adopt variations on the Chappell-Stratman simultaneous system approach for the voting analysis, which seeks to determine if lobbying payments are actually correlated with support for specific managerial or financial sector interests. However, I also use single equation analyses, similar to the Grier-Munger approach, to compare and contrast the patterns of lobbying effort between interest groups.

¹⁵ Keim and Zardkoohi (1988) propose that PAC contributions are actually more like protection money, preventing votes opposed to the interests of the group solicited by the legislator for support. Thus they turn the argument on its head and suggest that corporate PACs have very little influence over legislators. They find that corporate PACs appear to have less discretion in their giving patterns than labor PACs, for example, and are not as organized. McChesney (1988) also views the process this way, focusing on "rent-extraction" by politicians, where existing private rents can be threatened by legislative action.

CHAPTER 3: Campaign Money and Antitakeover Regulation in the 99th Congress

(1985-86)

I. Introduction

The large body of literature supporting the contractual theory of the firm suggests that corporate managers have a unique interest in legislation governing the corporate control market. In Jensen (1990), the strongest opposition to hostile tender offers to managers of large corporations, organized labor, and even the self-interest of politicians.¹⁶ Romano (1987) traces the adoption of antitakeover legislation in Connecticut to the lobbying efforts of the management of one poorly-performing state-chartered corporation, and a lack of focused opposition to the legislation by primarily out-of-state shareholders. In Romano (1993), she links antitakeover regulation in general to the negative effects of takeovers on top managers, who suffer abnormal rates of turnover following control contests.¹⁷ Grundfest (1990) views corporate agency problems as "entitlements to be allocated through the political process." Roe (1990, 1994) also focuses on the political process as an important determinant of corporate financial structure. Thus it is surprising that there is little systematic documentation in

¹⁶In particular, Jensen mentions the Business Roundtable as a lobbying group for managers of large corporations. He also speculates on the benefits legislators receive from close ties to wealthy managers, an important contributing group.

¹⁷ see Martin and McConnell (1991).

the research on political economy or finance of managerial political activity.¹⁸ In particular, do managers comprise a special interest pursuing federal antitakeover regulation?

A growing body of literature in financial economics¹⁹ has investigated the wealth effects of takeovers, and, in particular, the role managerial wealth and stock ownership play in the success or failure of takeover attempts. While the evidence is somewhat mixed, there appears to be a negative relation between takeover attempts and insider ownership, and a positive relationship between insider ownership and acquisition success. Firms with low insider ownership are more vulnerable to potential tender offers, but managers of these firms are more likely to respond with successful takeover defenses. When managers have a large stake in the firm, either they successfully deflect unwanted takeover attempts prior to any bids actually being made, or they welcome bids when the positive effects of the takeover on their wealth from share ownership outweighs the potential loss of salary and perquisites.

¹⁸ Only McKeown (1994) appears to recognize the potential for manager-shareholder conflict in corporate political activity. In his model, the determinants of corporate PAC formation include variables for firm performance (without adjusting for risk), and for potential free-riding by managers on political activity by large block holders. He finds no statistical significance for his dichotomous "block-holder" variable however.

¹⁹ see Cotter and Zenner (1994), Machlin, Choe, and Miles (1993), Comment and Schwert (1993), Song and Walkling (1993), McConnell and Servaes (1990), Mikkelsen and Partch (1989), Morck, Shleifer, and Vishny (1988), and Palepu (1986) among others.

Tying these findings together with an economic theory of regulation²⁰ I hypothesize that managers with a low share of ownership in the firm are more vulnerable to takeovers and thus more likely to pursue a political solution to their problem, through federal or state regulation of the control market, seeking every tool possible to prevent successful hostile tender offers. Managers with equity stakes above some cutoff are less inclined to be politically active for this same reason.

The hypothesis that managers act as a separate interest group is tested in two ways. First, I examine what levels of inside ownership are associated with corporate political activity, while controlling for other financial variables which also can be used to predict a firm's vulnerability to hostile tender offers, e.g. size, firm performance, leverage, and institutional ownership. Second, I test whether corporations with managers who are theoretically interested in legislative/regulatory control protection contribute significantly to legislators associated with antitakeover measures in

²⁰ The central thesis of Stigler's seminal work on regulation is that "as a rule, regulation is acquired by the industry and is designed and operated primarily for its benefit." (Stigler (1971), P. 3). Posner comments further on Stigler's economic theory of regulation: one should view regulation " as a product allocated in accordance with the principles of supply and demand (directing) attention to factors bearing on the value of regulation to particular individuals or groups, since, other things being equal, we can expect a product to be supplied to those who value it most." (Posner (1974), P. 344) Posner points out that we often see legislation in areas where cartelization would be infeasible (P. 347). Posner also talks of the use of uninformative and misleading public interest language which might serve to make it more costly for the public to accurately decipher the outcomes of the action (P. 355). Given the discrepancy between public perceptions of the outcomes of takeover activity, and the results documented in the academic literature on the free operation of the market for corporate control, this topic fits these concerns closely.

Congress. To examine this issue, I employ a public choice approach, and analyze the level and distribution of corporate sponsored political action committee (PAC) campaign contributions both across firms and across hypothesized interest groups concerned with control market regulation.²¹ I approach the application of this influence model in a new way. I test for differences between hypothesized interest groups directly by either stacking all of the observations and indexing them by interest group, or by including all legislator and firm characteristics in the equations together, to test for meaningful interaction terms between the financial variables of interest and the political variables. In this way I improve on the applications found in most of the literature.

The analysis focuses on corporate campaign contributions to legislators who sat in the 99th Congress, from 1985 to 1986. It was during this period that federal regulation was a legitimate alternative to state antitakeover statutes. Only after the Supreme Court's CTS Corp. vs. Dynamics Corp. of America decision in 1987, validating the states' second round of antitakeover statutes, did the focus shift away

²¹ It is important to note that this approach implies testing a joint hypothesis; first, that managers control expenditures by corporate-sponsored PACs, and second, that they utilize these funds to further their own interests as a special class of political participant. An examination of political science research on the activities and composition of PACs has, in fact, documented that corporate PACs are initiated and dominated by the firm's managers, and that shareholders have little impact on most corporate PAC's contribution policies. See Sabato (1986) and Handler and Mulken (1982).

from federal regulation.²²

My results indicate that campaign contributions are negatively related to the level of inside ownership (managers and board members), and some measures of risk adjusted performance. Although I hypothesize that political activity should be positively associated with institutional holdings, the cross-sectional relationship with this variable is usually negative, and sometimes significant at the 5% level. This evidence may indicate high levels of institutional holdings either substitute for managerial political activity (see McKeown, 1994), or in some way block managers from independent political activity. Also, political activity is positively related to firm size as measured by market value of equity, again contradicting the strict vulnerability hypothesis of the paper. This last finding suggests some form of a fixed cost constraint for corporate political activity which dominates the agency explanation.

Additional regressions show that low inside ownership firms tend to contribute slightly more, on average, to members of certain House and Senate committees playing an important role in the formulation of new control market regulation. Analysis of the determinants of support for antitakeover regulation do not find any evidence that corporate PACs systematically bought votes with campaign contributions. These findings suggest that there may be a systematic connection between corporate political

²² See Roe (1994) P. 160, "...when the Supreme Court held in CTS that a new state antitakeover formula was constitutional, managerial pressure on Congress failed. After CTS, managers shifted their pressure to the states, where they succeeded."

activity and managerial concerns with control legislation.

Section II of this chapter reviews the literature on corporate control, reviews antitakeover legislation that emerged during the 99th Congress, and develops my testable hypotheses. Section III presents my data and methodology. Section IV reviews the results of the statistical analyses. Section V concludes.

II. Background and Testable Hypotheses

A. Literature Review

Jensen (1990) claims that opposition to control contests comes not only from the managers of large corporations, but also the politicians who benefit from their ties to this class of wealthy constituents.²³ Grundfest (1990) also notes that managers use political contributions and other corporate resource decisions to reward or penalize specific legislators in an effort to support antitakeover legislation. He calls for "explicit political analyses" to describe the processes by which corporate interests created the specific corporate form emerging from U.S. corporate law.

Roe (1994) focuses on the historical weakness of capital and ownership in the

²³ In an earlier paper on the growing takeover controversy, (Jensen (1986)), he concludes that: "although economic analysis and the evidence indicate the market for corporate control is benefiting shareholders, society, and the corporation as an organizational form, it is also making life more uncomfortable for top-level executives. This discomfort is creating strong pressures at both the state and federal levels for restrictions that will seriously cripple the workings of this market. In 1985 there were 21 bills on this topic in the congressional hopper, all of which proposed various restrictions on the market for corporate control." (Jensen, 1986, p. 62)

U.S., due in large part to the historical and cultural character of the country's institutions.²⁴ He does not go so far as to say that there was an explicit conspiracy by the managers of large corporations to guide corporate law in a particular direction. He hypothesizes that the unique combination of cultural aversions to powerful capital, and a political process open to the machinations of special interests and lobbies, allowed the established system of corporate law to emerge. One notable gap in his book is the lack of "explicit political analyses" of managerial lobbying at the Federal Government level.

Romano (1993), in her review of the current state of takeover legislation, states that managers are the stakeholders with the largest stake at risk in takeovers. She points out that management turnover after a takeover is significantly higher in companies that performed below industry standards prior to the bid than in those that performed above the industry average, the conclusion reached by Martin and McConnell (1991).²⁵ She also points out that "the clear losers in takeovers, top

²⁴ He concludes: "A widespread academic view is that the public corporation represents the natural selection of the fittest organizational adaptation to the economies of scale, difficulties of agency costs, and problems of technology. The historical demonstration suggests that the natural selection analogues are incomplete. Politics molded the modern corporation, at least in important part, and it is worthwhile for academics to begin to consider whether alternative financial and organizational forms would better resolve problems of organization." (Roe, (1994), P. 286)

²⁵ Romano writes "the best available evidence indicates that concerns about expropriation are unfounded. Target company shareholders are clearly winners in corporate takeovers; the only clear losers are the managers of the target companies." (Romano, 1993, p. 48) Later in the same paper she notes "the average top manager's financial interest in the outcome of a takeover is much higher than the average shareholder's, and, of course, management's lobbying expenditures are paid by the

management, are the principle promoters of the new legislation". (Romano, 1993, p. 52)²⁶

Romano (1987), which covers the passage of a "fair price" antitakeover statute in Connecticut, is one of the few papers to investigate the political origins of new control legislation.²⁷ A "fair price" statute codifies a type of charter amendment which requires either a supermajority (usually greater than 80% voting shares) vote of the shareholders, or the payment of a "fair price" in a tender offer agreement, where the "fair price" is "the higher of any price the interested party paid to obtain its shares or the market price at the time of combination." (Romano, 1987, p. 116) The particular bill enacted by the Connecticut legislature was promoted by Aetna Life Insurance Company, which at the time was performing poorly with respect to other insurance firms. Romano infers that, because the firm was largely held by institutions who had been actively opposed to takeover defenses in the past, management was forced to seek a "statutory cloak of anonymity" to change their charter. (Romano, 1987, p. 130)

corporation." (Romano, 1993, p. 54)

²⁶ She explains that at the state level, "like most forms of pork-barrel legislation, antitakeover statutes are almost always unanimously approved. The likely explanation for such legislative unanimity is that the benefits and beneficiaries of such legislation are highly concentrated--many if not most of the target company's managers and workers reside within the state--while the costs are borne by a group of loosely organized, geographically dispersed shareholders." (Romano, 1993, p. 52)

²⁷ See Karpoff and Malatesta (1989), Ryngaert and Netter (1988), Szewczyk and Tsetekos (1992), and Smart and Smart (1993) for other papers dealing with some aspects of the political environment in states passing antitakeover regulation.

Lack of opposition by other S&P 500 firms incorporated in the state allowed the bill to go forward, and, although the bill was opposed late in the process by the state bar association, it passed fairly easily.

The literature on the firm value and wealth effects of corporate control activity also documents the agency conflict between management and shareholders. Managers use corporate resources to defend the firm, and themselves, against the discipline (and loss of wealth and perquisites of control) of the hostile tender offer. I use the empirical corporate control literature to provide the structure for my analysis of the determinants of managerial political activity.²⁸ When managers are active defending their control over the firm, I hypothesize that they will also be on average more active defending their positions in the political arena as well.

Dann and DeAngelo (1988) find that their sample of defensive restructurings consists primarily of large, older industrial concerns whose managers held a small fraction of the common stock. Incumbent directors and officers own an average of only 5% (median 2.6%) of the outstanding stock. A large proportion of the firms are listed on the NYSE. Their results support the hypothesis that the restructurings are defensive in nature, and done solely for the purpose of entrenchment.

Morck, Shleifer, and Vishny (1988), and McConnell and Servaes (1990) both estimate the functional relationship between firm value and level of insider ownership.

²⁸ Stulz (1988) provides an explicit theoretical model of the effect of managerial control of voting rights on the value of the firm and the market for corporate control.

Morck et al. find that management ownership is positively related to firm value at low levels of ownership, below 5%. This could be due to an increase in the effective threshold price of firm assets in successful tender offers (e.g. Stulz (1988)). At higher levels, greater than 5% inside ownership, firm value decreases with management's hypothesized increasing entrenchment, until at higher levels managers' interests become closely associated with those of the other owners of the firm, and firm value is once again positively associated with inside ownership. McConnell and Servaes estimate a similar model, though they find a different functional form to the relationship, which does not increase at all at high levels of insider ownership.

Cotter and Zenner (1994) develop a measure of total impact on managerial wealth, including equity value gains, severance payments (golden parachutes), and compensation losses. They find that managers benefit from resisting tender offers, and that shareholder wealth suffers overall from resistance despite higher takeover premiums. Similarly, Machlin et al. (1993) analyze the probability of takeovers for firms with and without golden parachutes, and document that these severance agreements can work to shareholders' benefit by mitigating the adverse wealth effects of changes in control on managers with equity in the firm. They conclude that golden parachutes reduce agency costs.

Palepu (1986), Comment and Schwert (1993), and Martin and McConnell (1991) all use variations of a model which stresses firm performance as a determinant

of takeovers. Palepu's model does not include a variable for insider ownership, but focuses on performance measures such as return-on-equity, growth, industry takeover activity, firm size, and market-to-book ratios. Comment and Schwert (1993) investigate the impact of antitakeover defenses on the late 1980's collapse of the market for corporate control. They model the probability of tender offers using a Palepu approach, focusing on the affects of adoption of a takeover defense such as a poison pill. They conclude that defenses were less important than secular economic trends in drying up the control market. Martin and McConnell (1991) find that managers of target firms who lose their jobs after a takeover contest on average under perform the industry prior to the contest. They interpret their results as indicating that the market for corporate control plays an important role in controlling non-value-maximizing behavior of top corporate managers. These articles suggest that, in general, low-performing managers should have an interest in regulation of the market for corporate control.

Mikkelson and Partch (1989), and Song and Walkling model the probability of tender offers and tender offer success stressing managerial ownership and control. Mikkelson and Partch find that low insider ownership is associated with a higher probability of tender offers, but with a lower probability of success. Firm size is also significantly negatively correlated with tender offers. They conclude that one explanation of the affect of insider ownership on takeover success "is that target

managers are more likely to accept a particular offer, publically resisted or not, when their ownership stake in the firm and personal payoffs from a takeover are high." (Mikkelson and Partch, 1989, p. 288) Song and Walkling (1993) also find that insider ownership is significantly lower for target firms than for random industry samples, and for contested control contests. Their results indicate that managerial ownership is beneficial where it is used to increase the acquisition premium in successful tender offers.

Using this literature as a base, I hypothesize that managers will utilize their corporate political action committee to lobby for antitakeover regulation, and that this political activity will increase as managerial "vulnerability," as measured by a series of financial variables suggested in the literature, increases.

B. Antitakeover Regulation in the 99th Congress, 1985-1986

I test my hypotheses using lobbying activity which occurred during the first session of the 99th Congress (1985-86). During this period there was increased interest in a federal "solution" to hostile takeover activity, after the Supreme Court found, in the 1982 case Edgar vs. MITE, that the first round of state legislation on control burdened interstate commerce. It was not until CTS Corp. vs. Dynamics Corp. of America in 1987 that they upheld Indiana's new legislation, validating a whole new set of state rules regarding takeovers. State "other constituency" legislation, in particular "control share" statutes, proliferated in what became a second round of antitakeover

creativity (Romano, 1993). Only during the break between these two decisions did federal legislation of the takeover market make sense.

Early in the 99th Congress' 1st legislative session, as many as 26 separate bills were introduced covering some aspect of corporate control (see Appendix 1 for a listing of the legislation). The legislation proposed a range of responses, including: outright prohibition of takeovers in particular industries (the petro-chemical industry was hit by a series of mergers in the previous two-year period); excise taxes on takeover profits; removal of the interest rate deductions on loans funding hostile takeovers; prohibitions on the use of high-yield debt; and, reviews of the effect of takeovers on competition in the affected industry. The Senate Banking, Housing, and Urban Affairs Committee reviewed a total of six different bills during this period, most covering takeover rules changes for the Securities and Exchange Commission in their disclosure oversight role, and one proposing a moratorium on the use of high-yield debt. The second most prolific committee in the Senate was the Finance Committee. Senators Boren and Nickles of Oklahoma introduced three bills aimed at reducing interest tax deductions or imposing an excise tax on profits of takeovers. They also teamed up to introduce a bill proposing a moratorium on petro-chemical firm takeovers in the Senate Judiciary Committee.

The one bill which actually emerged from a Senate committee (the Commerce, Science, and Transportation Committee) was S 1218, the International Air

Transportation Act of 1985. The bill was aimed at Carl Icahn's hostile tender offer for TWA, and would have revoked any air carrier's foreign route certificate if, in a takeover, the acquiring entity sought to liquidate and sell off those certificates. Senator Hollings wrote a minority opinion on the bill which points out that TWA had to set aside its "unending support for airline deregulation" to seek protection from Icahn. By the time the bill was approved by committee (it never came to a vote on the floor), TWA had already enlisted Frank Lorenzo of Texas Air as its white knight. In other cases as well, bills were introduced to defend particular companies, only to be withdrawn as the situation resolved itself well before the bill could make it through the legislative process.

The busiest House committee for antitakeover legislation was the House Judiciary Committee, which reviewed nine bills in total, seven of which were sponsored by Chairman Rodino among others. This set of bills called for rules changes on tender offers and review of takeovers in general for their affects on competitive markets. The other two bills related to takeovers in the petro-chemical industry. The Ways and Means Committee reviewed three bills proposing excise taxes on takeover profits, or removal of the interest tax deduction for takeover debt. The Energy and Commerce Committee reviewed one bill which proposed a moratorium on the use of high-yield debt in takeovers. It was proposed by Representative Richardson of New Mexico, the same delegation which provided the lead sponsor for the moratorium bill

in the Senate, Peter Domenici.

Coverage in the Wall Street Journal on the legislative activity during this period documents not only emergency responses by managers who suddenly become the target of a hostile tender offer, but also long-term efforts by management groups to lobby Congress for antitakeover legislation. A group calling itself "Stakeholders in America", including executives of Unocal (a takeover target), ITT, and Control Data, formed to lobby Congress, balancing the efforts of groups like the "Alliance for Capital Access" funded at least in part by Drexel, Burnham, Lambert.²⁹ The Business Roundtable, a group of executives of large corporations concerned with the expansion of the takeover activity to their own, previously inaccessible, market value bracket, lobbied for legislation as well.

Reports in the Congressional Weekly for the period suggest frenzied attempts to introduce new legislation in the early months of 1985, with little success in subsequently leading the regulation through Congress. While some legislators, such as Proxmire of Wisconsin, were vocal and consistent in their support of antitakeover legislation, others were either unable to make up their mind, or were actively smothering bills in committee, as was the case with D'Amato of New York. Hearings on the issue were frequent, progress on marking up a bill for consideration on the floor

²⁹ See Langley, M., Congress becomes forum for merger disputes as raiders and targets alike seek a hearing, Wall Street Journal, February 4, 1986.

was not.³⁰ It appears that it was impossible to form enough of a broad-based consensus on the need for new legislation, possibly a sign that most legislative interest came from geographically specific lobbying efforts.

C. Testable Hypotheses

To summarize the relevant corporate control literature, various measures of firm performance, firm size, asset structure, industry classification, and insider and institutional ownership have all been used as variables in a model determining potential agency problems. In particular, the level of inside ownership has been shown to be a significant variable measuring managers' vulnerability to hostile tender offers, and is linked to attempts by management to protect themselves from this form of market discipline. If vulnerability to a control contest can be mitigated by, among other actions, appealing to Congress for blanket federal regulation of the takeover market, then these variables can potentially be used to model the probability of corporate political activity as well.

Clearly there is anecdotal evidence of managerial lobbying for control regulation. The main hypothesis of this paper is that there is a systematic relationship between these specific financial variables and the amount of lobbying for this form of legislation by corporate PACs. Thus I am testing the null hypothesis that there is no relationship between these variables and the level and pattern of lobbying activity

³⁰ See Gettinger, S., Congress Eyes Wave of Corporate Takeovers, Congressional Quarterly, August 17, 1985, 1631-1636.

during a period in which Congress was considering control regulation. Given the findings of other research in the area of ownership and corporate control, and managerial behavior, in a cross-sectional analysis of the determinants of corporate political behavior I expect to see an inverse relation between managerial (inside) ownership of the firm and campaign contributions. Also, managers of firms that have low financial performance, small market value, high institutional ownership, or low debt/equity ratios have a higher probability of experiencing a successful hostile tender offer, and should also be more politically active.³¹

Although my hypotheses based on expected agency costs predict that firms with low market value are more vulnerable to takeovers, and their sponsored PACs should contribute more than larger, more secure firms, papers in public choice and political science support an alternative viewpoint on firm size. They suggest that medium-sized or larger firms should be more politically active than smaller ones, if there exist substantial fixed costs to being politically active, including the costs of establishing Washington lobbying offices, public relations staffs, and PAC registration and

³¹ In general, corporate PACs will contribute to those legislators who can provide low cost influence, and will donate in return for activity or votes in support of major legislation governing the firm and the industry. However, if managers control expenditures of funds by their respective corporate PACs, as suggested by the political science survey literature (see Sabato, 1986), then they might direct corporate contributions to legislators who would support their specific interests, especially with regard to regulation of the market for corporate control. The analysis in this paper implicitly relies on the hypothesis that managers control PAC funds, and tests this hypothesis jointly with the corporate control hypothesis.

administration fees. The firm size effect on vulnerability to takeovers could, therefore, be dominated by these other effects. Research in these other fields also suggests that the appropriate model specification should include a variable for industry classification to cover differences in regulation or industry structure, which are correlated to takeover vulnerability and firm size as well.³²

While the first set of hypotheses predict differences in the level of political activity of firms in different cross-sectional financial variable categories, the model of political influence model used in the second round of tests predicts differences in the patterns of campaign contributions between specific, pre-defined interest groups, and whether or not they successfully purchase support for their interests in Congress. The null hypothesis in this section of the paper is that there are no significant differences in the pattern of campaign contributions between interest groups categorized by levels of inside ownership, etc., and that their contributions are not statistically associated with legislative support for antitakeover regulation.

³² Zardkoohi (1988) and Grier et al. (1991) look at size as a determinant of corporate political activity. However, they are concerned with the effects of firm concentration on contributions. In fact, Grier et al. find a strong non-linear relationship, firms in diverse industries, with high free-rider costs to political action, contribute very little, while firms in highly concentrated industries (larger firms) can cartelize without the assistance of governmental regulation and are less politically active as well. Heywood (1988) finds concentration, union presence, and regulation all lead to higher contribution levels. Mizruchi and Koenig (1991) test the hypothesis that larger firms are more politically cohesive, through "interlocks" such as the Business Roundtable. Humphries (1990) also finds a positive relation between firm size and the probability of having a PAC.

IV. Data and Methodology

A. Data

The methodology used in the paper depends crucially on Federal Election Commission (FEC) Campaign Expenditure data. The FEC was created by Congress to monitor spending by candidates and interest groups in elections for congress and the presidency. All contributions by groups to a specific candidate must be funnelled through a "political action committee" (PAC) registered with the FEC. PACs are allowed a maximum contribution limit of \$10,000 per candidate per election cycle (lasting two years). This limit includes all expenditures on behalf of a candidate as well. The contribution data used in the study come from the Federal Election Commission's Campaign Expenditures in the United States, 1983-84 for the 1983-84 election cycle.³³ Contribution amounts made by particular PACs for individual legislators are taken from the non-party cross-tabulation files. For the interest group analyses, the amounts are summed by legislator within the different PAC categories, i.e. ownership levels and market value quartiles. PACs are identified by their listed corporate sponsor on the non-party spread file. In cases where I could not determine which firm sponsored a PAC from the name alone, I left it out of the sample.

I also construct a file of legislators from the same source using the

³³ Specifically, the tapes used were made available by the Inter-University Consortium for Political and Social Research (ICPSR 8511), and were originally collected by the FEC. (Neither group wishes to bear any responsibility for analyses or interpretations of the information.)

House/Senate spread tape as a master list. For most of the analysis, I reduced this file down to only those individuals for whom I had a full set of data, i.e. who stood as incumbents not up for election in the Senate, or who ran in and won their respective elections in November, 1984 (537 legislators, total). Data on previous winning percentages, seniority, and committee assignments were taken from various reference books on legislative affairs (Congressional Quarterly Almanac, Guide to U.S. Elections, and Committees in the U.S. Congress). Chamber of Commerce rankings for individual legislators was taken from Directory of Congressional Voting Scores and Interest Group Ratings for 1984. Once this file was complete, I merged it with either the individual amounts contributed to each legislator by a certain PAC, or the summed contribution data from the non-party cross-tabulation to give a data base containing the amounts given by each PAC category to each individual legislator.

In order to expand the typical influence model to incorporate financial variables of interest, additional financial data is collected, indexed by firm, so that the impact of financial characteristics on political activity can be determined.³⁴ Appendices 2 and 3

³⁴ This serves to combine a model of influence, dependent primarily on legislator characteristics, with a model of corporate political behavior. Grier, Munger, and Roberts (1994) is the most recent, and most complete, attempt to model the cross-sectional determinants of corporate political behavior. See also articles by Pittman (1976, 1977, 1985, 1988) as examples of the cross-sectional approach to analysing corporate political motivations. Their papers are used as a guide for constructing a data set which allows me to perform this extended analysis, and provides industry level variables used to control for industry structure, level of regulation, and purchases or sales from the Federal Government.

contain complete listings of the variables, data sources, and definitions.

The cross-sectional inside ownership data on corporations used in the following chapters come from the Value Line Survey for the 1st Quarter for 1985, and includes common stock ownership for both managers and board members³⁵. Market value is taken from the Center for Research in Security Prices (CRSP) tapes, and is derived from price and shares outstanding data for the last trading date in 1984. The original set of NYSE and AMEX firms includes all firms listed on the CRSP tapes at any time between January 1, 1983 and December 31, 1984. This list is then reduced by the number of firms for which Value Line gives inside ownership information, and, ultimately, by the number of firms for which an associated PAC can be identified. This sample may be biased towards larger firms, given the NYSE/AMEX starting point and the use of Value Line survey data.

Data on firm financial performance is also taken from the CRSP tapes and is calculated using a market model event study methodology on monthly stock price data using the value-weighted CRSP index. I calculate each firm's cumulative abnormal residuals for both 48 months preceding January 1, 1985, and 12 months preceding this date. I use a market-model estimation period of 60 months prior to each measurement period of 48 or 12 months, and require that the firm has at least 24 months of data

³⁵ See Kole (1994) for a discussion of the properties and accuracy of the Value Line Investment Survey for determining insider ownership. She concludes that the Value Line data are a good substitute for proxy statements as well as the Corporate Data Exchange data gathered for 1980.

preceding the measurement period for it to be included in the data set. When this data is added to the file, the sample is reduced to NYSE firms only, given that monthly returns are provided for NYSE firms only during this period.

Data on leverage comes from Compustat, and is calculated as total debt divided by total assets for the fourth quarter of 1984. Institutional ownership data comes from Spectrum 3 for December 31, 1984, containing listings of the 13(f) Institutional Stock Holdings Survey.

I have included an additional variable of interest, membership in the Business Roundtable, in my model. This variable substitutes for more extensive research on the extent of reciprocal interlocks with other similar firms. Information on whether or not the firm is a member of the Business Roundtable is taken from a listing of the membership provided by Burch (1981), "The Business Roundtable: Its Makeup and External Ties," which in turn was taken from a legislative investigation of the organization. Even though this list is from 1979, three years before my period of study, it appears membership in the organization is very stable, so I use it despite this limitation.

I also collect data on whether or not there is a hostile tender offer occurring in the legislator's home state during the 1980-1984 period. This data comes from a data base of all tender offers during this period collected by Bradley, Dodd and Ruback, and Desai. This data is used to establish the potential existence of constituent pressure on

the legislator regarding antitakeover legislation.

Industry data, including the 4-firm concentration ratio, whether or not the industry is highly regulated, and gross purchases from the Federal Government are taken from data provided by the Antitrust Division of the Department of Justice. This is the same data used by Pittman (1988), and Grier et al. (1994) for their sample of industries between 1978 through 1986. Data is given for a set of four-digit SIC code industry classifications, and attached to the firm data by CRSP SIC code.

The variable indicating whether or not a legislator supports antitakeover legislation is derived from a number of sources. Senators who voted for S 1218 (the bill which would revoke air-transport certificates for airline companies involved in takeovers) or who officially sponsored antitakeover legislation during this session were designated supporters. This judgement was supplemented with an examination of the Congressional Weekly reports, and reports in the Wall Street Journal. A dichotomous variable, 1=support, 0=does not support, was provided for each of the 537 legislators on the file. Twenty-six representatives, and thirty-three senators were designated antitakeover supporters. Appendix 4 has a listing of these legislators.

B. Methodology

I first run a set of two regressions to analyze the cross-sectional determinants of corporate campaign contributions. The following empirical models are used:

PROBIT

$P(\text{Sponsorship of a PAC})_j = F_j(\text{Inside Ownership, Size, Market-Related Performance, Leverage, Institutional Ownership, Business Roundtable, Concentration, Government Sales, Regulation})$

TOBIT

$\text{Contributions}_j = F_j(\text{Inside Ownership, Size, Market-Related Performance, Leverage, Institutional Ownership, Business Roundtable, Concentration, Government Sales, Regulation})$

(j = Firm J)

The dependent variables for the regressions include: a dichotomous variable for sponsorship of a PAC (run under a Probit procedure in SAS), and total contributions to all candidates, a left censored variable run under Tobit (or LIFEREG in SAS). I run the contribution equations for all firms with and without PACs. Left-hand side explanatory variables include: the level of insider ownership, log of market value (a measure of the size of firm), firm performance with respect to the market over both 48 and 12 months prior to the end of the election cycle, leverage, institutional ownership, whether or not the firm was a member of the Business Roundtable in 1979, the firm's industry 4-firm concentration ratio, whether or not the firm's industry was considered highly regulated (according to Pittman (1988)), and the firm's industry's percentage of gross sales to the federal government.

I then run the influence model outlined in Chapter 2. The working model of campaign contributions and influence used for my analysis contains the assumption that

PACs associated with corporations and trade associations provide contributions to candidates as quid-pro-quo for services to be rendered at a later date.³⁶ PACs donate to those candidates who have the lowest costs of providing legislative services, and who can thus provide them at the lowest price. These legislators are low-cost because they are the most powerful (chair important committees, have seniority, incumbency), are the most ideologically sympathetic (high Chamber of Commerce, or business rating), and have a supportive constituency (measured with some proxy for constituent preferences). Candidates can also have a high probability of winning (measured by incumbency or previous vote margin).

³⁶ In Morton and Cameron's (1992) terminology, these contributions are service-induced. These contingent service claims are purchased according to the following model:

$$G_i(\theta) = P_i R(s_i, \theta) - C_i$$

which equates the gain to contributions to the probability of the candidate's being elected times the return from contributions (i.e. the expected return) minus the cost of the contributions. PACs will donate until the marginal expected returns are equal to the marginal costs. Candidates provide services which are costly and charge accordingly. They have neither a monopoly on legislative influence sales, nor is the market perfectly competitive, and there are some constraints on the amount of legislative services they can supply.

It is important to recognize that in this model PACs will take into consideration the probability of the candidate's being elected within the election cycle, and will spend more funds on the sure winner and less on the long-shot candidate. This approach focuses entirely on the service-induced rationale, even though others have suggested that PACs pay attention to their impact on election outcomes. Poole and Romer (1985) found that contributions are significantly negatively related to previous election margins.

Chappell (1982) uses a simultaneous equation model for determining levels of influence from campaign contributions under this form of model. The two-equation system is as follows:

$$\text{vote}_i = \text{contributions}_{ij} + \text{party}_i + \text{ideology (ACA)}_i + \text{appropriate constituent preference measure}_i$$

$$\text{contributions}_{ij} = \text{committee dummy}_i + \text{incumbency}_i + \text{previous vote margin}_i + \text{party}_i + \text{ideology}_i + \text{appropriate constituent preference measure}_i$$

where i = legislator i , and j = interest group or firm j . The first, or vote, equation is a PROBIT model with a dichotomous dependent variable equal to 1 if the legislator sides for the interest in a specific roll-call vote. The second equation, the contribution equation, where the dependent variable is restricted to being positive, comprises the TOBIT portion of the model. The TOBIT equation contains explanatory variables dealing with power and likelihood of winning an election which do not figure in the voting equation, thus allowing the simultaneous estimation. Both equations include a set of exogenous variables which theoretically establish a candidate's initial position on an issue; contributions then cause shifts away from that particular position.³⁷

Where Chappell and Stratman (1992) use a two-equation approach, Poole and

³⁷ Variables not in the model specification include: logrolling effects on voting patterns, vote-trading, some provision for punishment of those contributors who also give money to an opponent, other forms of contributions (unreported bribes, in-kind gifts), and most importantly, solicitation, or lack thereof, by candidates, although previous winning percentage might be an inverse proxy for this latter variable.

Romer (1985) and Grier and Munger (1991) use a single equation estimation technique to describe the sources of contributions.³⁸ They separate contributors into interest groups, and then estimate the same regression equation for each one, noting the parameters will vary cross-sectionally. The equation they estimate is

$$\text{Contribution}_{ij} = B_0 + B_1(\text{last vote margin}_i) + B_2(\text{Freshman dummy}_i) + B_3(\text{Seniority}_i) + B_4(\text{Chamber of Commerce Vote Index}_i) + B_5(\text{Chamber of Commerce Vote Index}^2_j) + B_6(\text{Democrat}_i) + \text{Sum}_k[B_k(\text{Committee}_{kj})] + e_{ij}$$

where i = individual legislators, j = particular interest groups, and k = particular committee assignments. I use both the single and simultaneous approaches in my empirical tests in this chapter.

I first perform the analysis similar to Grier and Munger (1991) by dividing my sample into "interest groups" based on levels of inside ownership and firm size. The following empirical model is used:

TOBIT

Average Contributions $_k$ = F(Likelihood of Reelection $_i$, Election Status $_i$, Party Affiliation $_i$, Ideology $_i$, Power $_i$, Interest Group Identifiers $_k$, Interaction Terms - Group x Committee $_k$)

(i = Legislator I, and k = Interest Group K)

³⁸ Poole and Romer (1985) focus on ideology, defining a variable which is comprised of multiple interest group indices, rather than just one (e.g. Americans for Democratic Action, Chamber of Commerce, etc.). Grier and Munger (1991) model the effect of legislative institutions and constituent preferences on the abilities of incumbent legislators to serve specific interest groups. They find support for the view that committees are more powerful than originally thought, and that individual legislators have agenda setting and legislation drafting power which enables them to provide significant services to interest groups.

This analysis tries to determine if there are any systematic differences in the patterns of contributions between the hypothesized interest groups. I do this through testing the significance of interest group dummy variables and their interaction with other variables of interest. By stacking all of the observations for all legislators and all interest groups, and then identifying the different interest groups using dummy variables, I can test the differences between the groups directly.

As an additional test of lobbying activity during this period, I compare the coefficients of interest estimated for the 1983-84 Election Cycle with those estimated using the same sample of firms and legislators for the 1981-82 Election Cycle. Different patterns between the two periods might suggest an increase in lobbying for antitakeover legislation during this "window" of federal regulatory opportunity.

In the last part of my analysis, where Chappell and Stratman used a simultaneous Probit-Tobit (SPT) model to estimate successful influence on votes, I have substituted two-stage least squares (2SLS).³⁹ This is applied using the following system:

³⁹ This specification does not account explicitly for the truncation of the contribution variable at zero, and the dichotomous nature of the support variable. Chappell (1981) found only a slight propensity to find significance using 2SLS where the the SPT approach did not. In my analysis in the next section I find little explanatory power in the 2SLS support equations. Because of this, I do not run the same models under Chappell's Simultaneous Probit-Tobit approach.

Two-Stage-Least-Squares

$Contributions_{ij} = F(\text{Likelihood of Reelection}_i, \text{Election Status}_i, \text{Party Affiliation}_i, \text{Ideology}_i, \text{and Power}_i, \text{Inside Ownership}_j, \text{Size}_j, \text{Market-Related Performance}_j, \text{Business Roundtable}_j, \text{Concentration}_j, \text{Government Sales}_j, \text{and Regulation}_j)$

$Support_i = F(\text{Interaction - Vulnerability} \times Contributions_{ij}, \text{Party}_i, \text{Ideology}_i, \text{Constituent Preferences}_i)$

(i = Legislator I, and j = Firm J)

The two-stage least squares approach involves simultaneously estimating regressions which link the level of contributions from a particular interest group to a specific legislator with the legislator's predisposition on the issue (ideology, party affiliation) as well as the obvious "cost" variable (committee membership) and probability of election variables (incumbency, and the candidate's previous vote margin) with a regression which links the dichotomous variable, public support for antitakeover legislation, with a legislator's predisposition to support the issue (party, ideology, and constituent preferences), and the amount of contributions from interested PACs. Constituent preferences are defined here by the presence of headquarters of firms subject to hostile tender offers within the legislator's state.⁴⁰

⁴⁰ Theoretically, contributions will increase or decrease at the margin a legislator's predisposition to support a given issue. A two-stage or simultaneous approach is necessary because contributions to a candidate are not totally independent of the calculation, by the contributor, of whether or not a candidate will support an issue; either they might contribute to those with a higher probability of supporting an issue, or they will expend monies to change opposing legislator's minds on an issue. In either case, the error terms for the two equations might be correlated, dictating that they be estimated simultaneously or in a two-stage process.

IV. Findings

A. Summary Statistics and Definition of Interest Groups

In order to define my hypothesized interest groups based on average legislator contribution patterns across firms with different levels of "vulnerability," I first looked at correlations between the average firm contribution amounts by inside ownership level. Table 1 contains the results. For this section of the analysis the sample includes just those PACs for which I have inside ownership data.⁴¹ There is not a lot of variation in contribution patterns; correlations throughout the data set are uniformly high, higher than 50% in most cases. Corporate PACs in the sample are focusing on a similar set of legislators for their contributions. However, the pattern which emerges from this table is that PACs in the less than 20% range are much more highly correlated with one another than other ownership levels. One can in effect draw a line across the table at this point and divide the levels into two groups with different contribution patterns. This breakpoint of 20% or less inside ownership and greater than 20% inside ownership is equivalent to hypothesized levels of control sufficient to block takeovers, or align managerial interests with those of shareholders (see Morck, et al., (1988)). Despite its somewhat arbitrary nature, I use the 20% cutoff in the

⁴¹ Out of my original list of 2,615 CRSP-listed firms which operated during the 1983-84 Election Cycle, 562 firms had at least one PAC which could be identified from the FEC data, i.e. by name of company sponsor, and there were 85 duplicate PACs, giving a total number of PACs registered for this group of 647. (39 of the 562 firms had more than one PAC on file.) Only 459 PACs were sponsored by firms for which both inside ownership and market value data were available.

remainder of the paper to divide firm PACS into those sponsored by "vulnerable" low-inside-ownership firms vs. high-inside-ownership firms.

Table 2 contains sample summary statistics for the set of PACs sponsored by firms for which market value and inside ownership data are available. The PACs are divided into eight groups, according to market value quartile and whether inside ownership was 20% or less, or greater than 20%. Total contributions by this sample of 459 PACs equalled almost \$16,000,000, for an average of close to \$35,000 per PAC. Given that the sample is drawn from the NYSE-AMEX set of firms, the number of PACs for which inside ownership is greater than 20% is small, e.g. only 5 firms in the highest market value quartile fall into this category. PACs of firms in the largest category donate the most on average (\$67,000 per PAC). There is some indication that PACs of firms in the low inside ownership categories donate more than their high inside ownership comparison groups. However, the quartile groupings are so large that this affect may still be due to size clustering within these groups.

Table 3 compares contribution activity by the sample of 459 firms over the two election cycles, 1981-82 and 1983-84. I keep the sample fixed between periods, i.e. the 459 firm sample created from the 1983-84 period is used as the base sample for the earlier period, in order to ensure comparability in the later analyses. The amounts being contributed by the sample firms' PACs are lower (\$10,083,863 in 1981-82 vs. \$15,956,530 in 1983-84). However, the group totals are less due at least in part to the

fact that some PACs might not have been in existence in the earlier period. The percentages of the total contributions by each category are very similar between periods, suggesting a similar pattern of political activity across groups. Section C below analyses this question further.

B. Cross-sectional Determinants of Corporate Political Activity

As outlined above, the first level of analysis looks at the cross-sectional determinants of corporate political involvement. Table 4 presents the summary statistics for the 428 firms in the cross-sectional regressions based on CRSP generated SIC codes.⁴² Only 45.1% of the sample sponsored a PAC, 193 firms out of the total of 428. Contributions averaged \$25,964.18 per firm in the sample as a whole, for a total of \$11,112,669.04. This represents \$57,578.60 per firm for those actually sponsoring a PAC. Inside ownership averaged 11.37% for the sample, leverage just over 18%, institutional ownership just over 40%, and government sales just over 4%. The Justice Department study classified 135 firms out of 428 in the sample as "regulated," and 77 of the firms in the sample were members of the Business Roundtable in 1979.

⁴² Again, I started from a total sample of 2613 firms that operated during the 1983-84 Election Cycle. This sample size decreased as I added data on inside ownership, market value, risk-adjusted performance, leverage, and sectoral characteristics for 220 4-digit SIC code industries provided by the Justice Department. I ran the regressions using both COMPUSTAT and CRSP generated SIC codes; the sample shrank from 428 firms using the SIC codes provided by CRSP, to only 228 firms using the COMPUSTAT codes. Results varied marginally between the two approaches. While the coefficients on inside ownership, the variable of primary interest, remained negative, they were statistically insignificant using the smaller sample.

Table 5 presents a series of cross-sectional Probit estimates for determinants of PAC sponsorship using the financial variables inside ownership, market value, market performance, leverage, institutional ownership, membership in the Business Roundtable, concentration, government sales, and level of regulation. All the firms for which full data are available are included in this analysis (428 firms total, 193 firms sponsoring PACs). Hypothesis one, that firms with vulnerable managers will be more politically active, is supported by the inverse relationship between inside ownership and sponsorship of a PAC. In both of the models, which use different measurement periods (48- and 12-month) for firm performance, the coefficient on inside ownership levels is negative and significant at the 1% level. The positive relationship between log market value and sponsorship suggests larger firms are more active politically, rather than small firms, which runs counter to the hypothesis that smaller firms are more vulnerable to takeovers and therefore should be more active in the regulatory market. However, this finding supports other research on firm size and corporate political activity. Although the coefficients on the two CAR variables are not statistically significant, the signs are in the right direction. Neither leverage nor levels of institutional ownership are significant, and are the reverse direction to that hypothesized (political activity should be negatively related to debt levels, and positively related to institutional ownership). Membership in the Business Roundtable is significantly positively associated with sponsorship of a PAC, as is being regulated. Percent

government sales is also positive, but statistically insignificant. The sign on the concentration variable is positive suggesting as concentration in an industry increases, sponsorship of PACs increases as well, but these results are statistically insignificant for these regressions.

Table 6 estimates the same relationship for levels of contributions. I use two different dependent variables in these estimations: contributions to all candidates in the final election, and contributions to all candidates divided by absolute market value. Again, the coefficients on inside ownership are negative and significant for all firms for which the data was available (428 firms total, 187 firms contributing). In both specifications, 48-month cumulative abnormal residuals are significantly negatively associated with contributions, and 12-month CARs are negative and significant in the second specification as well. Firms which are performing poorly are contributing more than their more successful rivals. Coefficients on the levergae and institutional ownership variables are again the wrong sign, and, in the first two models, institutional ownership is statistically significant at the 5% level. This suggests the agency cost model is not supported by these variables. In some way, high levels of institutional holdings are blocking or substituting for direct corporate political activity.⁴³

Membership in the Business Roundtable and levels of government sales are

⁴³ McKeown (1994) suggests that managers will behave as free-riders on institutional political activity. Another explanation might be that high institutional ownership places pressure on managers to forego independent political activity that will alter the principal-agent relationship, i.e. any regulation affecting the corporate charter.

associated with a large increase in campaign contributions. The 4-firm concentration ratio is positively associated with contributions as well.

C. Influence Model: Comparing Interest Groups

In the second level of the statistical analysis, the first of the influence model equations, which estimates the determinants of contributions only, is used to estimate any differences in the patterns of campaign contributions between hypothesized interest groups, and between election cycles. I use average contributions as the dependent variable, defined as the total amount of contributions from all of the firms in a particular interest group (Interest Group K) divided by the number of firms in that defined interest group. I am focusing on the behavior of the average firm in each group, i.e. how does the average low inside ownership firm (less than 21% inside ownership) contribute based on different legislator characteristics. The specific goal of this section is to compare and contrast the amounts of contributions given by firms in the low and high inside ownership groups to members of the committees which generated antitakeover legislation during this period. The committees include:

LIST OF COMMITTEES STUDIED

| Regression Variable | Committee Name (# Antitakeover Bills) |
|---|--|
| <ul style="list-style-type: none"> ● SENATE: SENCOMM1 <li style="padding-left: 2.5em;">SENCOMM2 <li style="padding-left: 2.5em;">SENCOMM3 <li style="padding-left: 2.5em;">SENCOMM4 | <ul style="list-style-type: none"> Banking, Housing, Urban Affairs (6 Bills) Commerce, Science, Transportation (1 Bill) Judiciary (1 Bill) Finance (3 Bills) |
| <ul style="list-style-type: none"> ● HOUSE: HSECOMM1 <li style="padding-left: 2.5em;">HSECOMM2 <li style="padding-left: 2.5em;">HSECOMM3 <li style="padding-left: 2.5em;">HSECOMM4 | <ul style="list-style-type: none"> Banking (No Bills) Energy, Commerce (1 Bill) Judiciary (9 Bills) Ways and Means (3 Bills) |

Table 7 contains the results of a series of regressions which test the arbitrary interest group differences. First, I stack all of the mean group contributions to each legislator indexed by both legislator and group, and include a group identifier dummy variable in each observation. I then test for differences between the coefficients on a set of interaction term, consisting of the group dummy variables multiplied by the committee dummy variables. These tests give direct estimates of the differences between specified groups of the slopes of the contribution amounts due to a legislator's membership on the important committees. The Tobit regression is run four times; each run tests a different market-value size quartile's set of slope dummies. Table 7 reports all of the coefficients for each of the model runs, and at the bottom of the table contrasts the coefficients of interest, the committee slope dummy variables, for differences between hypothesized interest groups.

I included a ninth group of PACs in this set of tests, containing PACs sponsored by firms which can be classified as opponents of antitakeover legislation. This "opposition" group included brokerage firms, securities industry trade associations, and one industrial firm, Mesa Petroleum, managed by T. Boone Pickens, who targeted both Phillips and Unocal for tender offers just prior to the period under study. There were 12 separate PACs in this group.⁴⁴ Given the 9 separate groups, the total number of observations for these regressions was 4833, or 537 legislators x 9 groups. 3115 of the observations were positive contribution amounts.

For all of the the quartile model runs, a greater number of the coefficients on the interaction terms for the low ownership group appear to be absolutely larger than those for the greater than 20% inside ownership group. They are greater for five of the committees in the 1st quartile, every committee in the 2nd quartile, greater for five out of eight in the 3rd quartile, and greater for seven out of eight in the fourth quartile. The differences are most pronounced in the 4th quartile.

I tested the differences between coefficients under ordinary least squares using a

⁴⁴ The results for the opposition group are not reported in Table 7. The antitakeover legislation opponents, however, appear to be more strategically directed than the low inside ownership group as a whole, donating large positive quantities on average to the Senate Banking and Senate Judiciary Committee members, and to the members of the House Banking, Energy and Commerce, and Ways and Means Committees. The difference suggests that the general sample of corporate PACs may in fact be a somewhat noisy data set, with all of the industry specific interests confusing the results, while the opposition sample of PACs is focused on financial and control market issues. Stratman (1992) warns about defining the interests narrowly in order to obtain well-defined results from the influence model.

conventional f-test, testing whether or not the difference between the two coefficients was significantly different from zero. The results of all 24 of these tests (4 different models/quartiles, times 8 different committees) are given in Table 7A. Under OLS, instead of TOBIT, the low ownership groups in the 1st market value quartile contribute less for all committees, but the differences are insignificant. The differences are insignificant as well for the 2nd quartile, although the low ownership group contributes more for six of the eight committees. Low ownership firm sponsored PACs contribute significantly more to the Senate Banking Committee in the 3rd Quartile, and significantly less to the House Judiciary Committee. It is in the 4th quartile where the differences are most pronounced; the less than 21% inside ownership PACs contribute more to all eight committee members, and six of these differences are statistically significant.

When the sample is broken down by 10% and less inside ownership and greater than 10% inside ownership (not reported in the tables) these results are not as strong. Although in 21 of the 32 comparisons the low inside ownership group contributes more to members of the various committees, only four of the 32 differences are statistically significant, and in three of these four differences the high inside ownership group contributes more. Therefore this result is not very robust to the breakdown of quartiles into different arbitrary interest groups. Firms in the second highest market quartile in particular donate in patterns contradictory to the general vulnerability hypothesis.

The high level of interest in the Senate Banking Committee in the less than or equal to 20% vs. greater than 20% analysis also is present when I compare contribution patterns across election cycles. Table 8 contains the same analysis as found in Table 7, however here I am comparing the differences between low ownership PACs in 1983-84 and the same group of PACs in the earlier election cycle, 1981-82. Low ownership PACs contributed significantly more to members of the Senate Banking Committee in the later period.⁴⁵

These findings point to the Senate Banking, Housing, and Urban Affairs Committee, which originated 6 bills, as the most important for the hypothesized managerial interest group during this period. Referring to Appendix 1, an argument can be made that the Senate Banking Committee was among those which were considering generalized solutions to the problem of hostile takeovers, while other committees were being used by specific legislators to introduce bills addressing the needs of specific constituents, e.g. petro-chemical firms, and airlines. The Senate Banking Committee reviewed proposals for excise taxes on tender offer profits, the removal of interest expense deductions for loans used in hostile takeovers, moratoria on the use of high-yield debt, and SEC rules changes. However, other committees also introduced these generalized types of bills as well, including the House Ways and

⁴⁵ Using the same f-test used above in Table 7A, the difference is statistically significant at the 1% level. The same group also gave significantly less to the Senate Judiciary Committee than it did in the previous period.

Means and Judiciary Committees. Thus it is hard to argue that the pattern of contributions by the "vulnerable" group supports the notion that this group of corporate PACs acted consistently across relevant committees to lobby for antitakeover legislation.

The evidence from this analysis, and other similar approaches not reported here but contained in earlier versions of this chapter, does not conclusively prove that firms with less than 21% inside ownership behaved significantly differently from their counterparts with greater control across all firm size categories. There was a shift in interest by low inside ownership firms towards members of the Senate Banking Committee between the 81-82 and 83-84 election cycles, as the takeover market heated up. There is also significant evidence that on average low inside ownership firms in the largest size quartiles contributed more aggressively during the 83-84 period to the entire set of committees as well. This evidence may be enough to suggest basic differences in lobbying interest between the two groups defined by their strict level of vulnerability to hostile tender offers. I use the simultaneous equation analysis in the last section to determine if there is any connection between lobbying by the vulnerable, low inside ownership group and actual support by individual legislators for antitakeover legislation.

D. Influence Model: Combined Firm and Candidate Data

The last part of the analysis applies the entire, two-equation system contained in

the influence model outlined above. In this case, the observations on the FEC tape are taken and directly included in the data set without summing them across arbitrary interest groups. Thus each observation is indexed by both firm and legislator. I then expand the data set to include all of the zero observations, where a firm did not make any contributions to a particular legislator, for each firm represented in this sample (the sample containing firms for which all of the data used in the cross-sectional models was available.) The number of total observations in this data set exceeds 113,326, a large proportion of which are zero.

In order to estimate the model using all of the independent variables from both the influence and cross-sectional models, I then ran this in two-stage-least-squares. As my interaction terms in the support equation I included contributions*inside ownership, contributions*log market value, contributions*12 month CAR, contributions*business roundtable membership, contributions*leverage, and contributions*Institutional Ownership to get the changes in the slope of the probability that a specific legislator would support antitakeover legislation if the contributions came from more or less "vulnerable" managers. According to my hypotheses, these coefficients should be negative, e.g. as inside ownership increases, the propensity of those contributions to cause support to increase should decrease. Also, the presence of a hostile tender offer in the legislator's home state should be positively associated with support.

The results are given in Table 9. In the contributions equation run with all of

the individual amounts, inside ownership is still negatively associated with contributions. Other variables in this equation continue to have the expected sign as well. However, the power of the model to bring out the hypothesized behavior in the support equation appears completely lacking; when all of the interaction variables are added to the specification, the r-square is actually negative. The sign of the coefficient of the important interaction inside ownership variable is the opposite of what is expected, and statistically insignificant. Both party affiliation, democrats supporting antitakeover legislation, and the business support ideology rating, also positive, are significant. Having a hostile takeover within the legislator's home state is actually negatively associated with support for antitakeover legislation. The coefficient on contributions alone, however, is positive and significant. When this model is run without the interaction variables (not reported here), this contributions coefficient remains positive and significant, and the r-square is positive, although quite low (1.64%). Thus although contributions are positively associated with support, it appears that the model does not support the notion that "vulnerable" managers actually bought support for antitakeover legislation.

V. Conclusion

My goal in this analysis has been to explore evidence of systematic differences in political action during this period by managers with different levels of vulnerability to tender offers. Inside ownership does appear to be negatively related to corporate political activity, as is risk-adjusted performance by the firm during the 1983-84 election cycle. However, other variables in the model which are used to measure potential vulnerability, e.g. leverage and institutional ownership, do not enter the model in the hypothesized direction. These variables may relate to political activity in a way separate from their impact on agency costs. Firm size as well is positively related to political activity due to other cost factors unrelated to the firm's vulnerability to hostile tender offer activity.

I also find that low inside ownership firms, here defined by the distribution of campaign contributions as below 20% inside ownership, appear to differ only marginally in both the volume and pattern of their associated PAC's contributions from those of higher inside ownership firms. There was a shift in interest by low inside ownership firms towards members of the Senate Banking Committee between the 81-82 and 83-84 election cycles, as the takeover market heated up. There is also some evidence that on average low inside ownership firms, defined as equal to or less than 20% inside ownership, in the largest size quartiles contributed more aggressively

during the 83-84 period to the entire set of committees proposing and acting on antitakeover legislation as well. This evidence comes from a period during which federal regulation of the market for corporate control may have been the most viable alternative to state regulation for managers of target firms. The break point of 20% suggested by the data is within the general bounds of "entrenchment" or vulnerability hypothesized in the finance literature, and may be enough to suggest basic differences in lobbying interest between the two groups defined by their strict level of vulnerability to hostile tender offers.

Based on the results from a simultaneous analysis of the determinants of contributions and support for antitakeover legislation, I cannot say that contributions associated with PACs sponsored by firms with lower levels of inside ownership, and thus higher levels of vulnerability, actually succeed in purchasing support for this type of regulation. This may be due to the fact that there are many different reasons why firms contribute, making it difficult to statistically isolate issues of interest to managers alone, cutting across sectoral and other regulatory lobbying efforts.

**APPENDIX 1
ANTITAKEOVER BILLS, 99TH CONGRESS**

| Bill (Date) ----- | Content ----- | Sponsors ----- | Committee ----- |
|----------------------|---|---|---------------------|
| House Bills: | | | |
| 1182 (022085) | Prohibit TO's of Petro-chemical companies. | Rose (NC), Jones (TN), Swift, Weaver, Whitley, Huckaby, Tallon, English, Dowdy | Judiciary |
| 998 (020685) | Prohibit TO's of Petro-chemical companies. | Edwards (OK) | Judiciary |
| 1003 (020685) | 50% excise tax on profits of TO's. | Jones (TN), Edwards (OK), English, McCurdy | Ways and Means |
| 1100 (021985) | 50% excise tax on profits of TO's. | Jones (TN), Edwards (OK), English, McCurdy | Ways and Means |
| 1553 (031985) | Remove interest deductions on loans involved in TO'S. | Dorgan (ND), | Ways and Means |
| 2400 (050785) | Moratorium on use of junk debt. | Richardson(NM) | Energy and Commerce |
| 1480 | Shareholder Democracy Act | Markey | Energy and Commerce |
| 1074 | Effect of TO's on competition. | Rodino (NJ) Brooks, Edwards, Seiberling, Hughes, | Judiciary |

| | | | |
|------|--|--|-----------|
| | | Feighan | |
| 1075 | Notification reqs. applicable to TO's. | Rodino (NJ) | Judiciary |
| 1515 | Clayton Act def'n. of competition. | Seiberling, Edwards (CA) | Judiciary |
| 1830 | Record keeping in mergers. | Rodino (NJ) | Judiciary |
| 1831 | Study effects of mergers. | Rodino (NJ) | Judiciary |
| 1832 | Office of Comp. and Economic Concentration | Rodino (NJ) | Judiciary |
| 2735 | Notification reqs. applicable to TO's (Clayton Act Amends.) | Rodino (NJ) Fish, Brooks, Edwards (CA), Seiberling, Hughes, Glickman, Feighan, Smith (FL) | Judiciary |

Senate Bills:

| | | | |
|--------------|---|------------------------|----------------------|
| 414 (020685) | Deny deductions of interest in TO's. | Nickles (OK) | Finance |
| 420 (020685) | 50% excise tax on profits of TO's. | Boren (OK), Nickles | Finance |
| 473 (021985) | Moratorium on petro-firm TO's. | Boren (OK), Nickles | Judiciary |
| 476 (022085) | 50% excise tax on profits of TO's. | Boren (OK), Nickles | (direct to Floor) |
| 632 (030785) | Mandatory 338 | Chafee (RI) | Finance |

| | | | |
|---------------|---|---|--|
| | election in hostile TO's. | | |
| 975 (042385) | Moratorium on use of junk debt. | Domenici (NM) Chiles, Ford, Murkowski, Eagleton, Bingaman, Simon, Wilson (CA) Evans (WA) | Banking, Housing, Urban Affairs (BHUA) |
| 1695 (092585) | re: hostile TO's. | Spector (PA) | BHUA |
| 286 | Greenmail prohibition | Riegle | BHUA |
| 631 | SEC Rules Amend. | Chafee | BHUA |
| 706 | SEC Rules Amend. | Proxmire | BHUA |
| 860 | SEC Rules Amend. | Metzenbaum | BHUA |
| 1218 | Revocation of air transport certificates in TO related asset sales. | Danforth (MO) Eagleton, Kassebaum, Goldwater, Pressler Gorton, Stevens, Tribble, Long (LA), Inouye, Ford (KY), Riegle, Exon, Gore, Dole, Rockefeller. | Commerce, Science, Transport. |

APPENDIX 2
LIST OF VARIABLES IN CONTROL STUDY

LIST OF VARIABLES:

SOURCES:

Firm Data:

PAC = 1, if firm sponsors PAC
1983-84 Contribs.
Inside Ownership

Market Value
Abnormal Returns
Leverage

Institutional Ownership
Four-Firm Concentration
% Government Sales
Level of Regulation
Member Business
Roundtable

Federal Election
Commission
Value Line
Investment Survey
Center for Research
in Security Prices
Compustat
Spectrum 3
Anti-Trust Division
Justice Department

1979 Congressional
Study

Candidate Data:

Support = 1 if Candidate
Supports Antitakeover
Legislation

Previous Winning %
Election Year
Seniority

CCUS - Ideology
Incumbent
Open Race
Party Affiliation
House or Senate
Committee Membership
Chair of Committee
Home Office State of
Target Firm

(Vote, Sponsorship, or
Public Support)
Congressional Weekly,
WSJ, NYTimes
Various Sources on
Legislative Affairs

Bradley, Dodd and
Ruback, and Desai

APPENDIX 3

DEFINITIONS OF INDEPENDENT VARIABLES

INSIDE OWNERSHIP - % voting shares owned by management and Board members.
LOG MARKET VALUE - market value as of December 31, 1984, multiplied by # of outstanding shares.

CUMULATIVE ABNORMAL RESIDUALS - 48 month and 12 month cumulative abnormal residuals calculated using the value weighted index on CRSP.

LEVERAGE - Total Debt divided by Total Assets, COMPUSTAT 4th Quarter, 1984.

INSTITUTIONAL OWNERSHIP - Percentage of Outstanding Equity Held by Institutional Investors, Spectrum 3, Institutional Holdings Survey, 4th Quarter, 1984.

4-FIRM CONCENTRATION RATIO - % total industry sales by 4-digit SIC Code of the four largest firms in the industry.

% GOVERNMENT PURCHASES AND SALES - % of industry's total sales provided to Federal Government.

LEVEL OF REGULATION - dummy=1 if Anti-trust Division determined industry substantially regulated by Federal Government.

MEMBER BUSINESS ROUNDTABLE - dummy=1 if firm member of Business Roundtable as of end of 1979.

WIN8082 - Winning percentage from legislator's previous election.

ELECYEAR - dummy=1 for running for election in 1984.

SENIORTY - # of years served in the legislature.

CCUS - U.S. Chamber of Commerce business support ideology rating.

INCUMB - dummy=1 if legislator is an incumbent.

OPEN - dummy=1 if legislator ran in an open race 1984.

DEM - dummy=1 if member of democratic party.

HOUSE - dummy=1 if legislator member of House of Representatives.

SENCOMM1 - dummy=1 if member of Senate Banking, Housing, and Urban Affairs Committee.

SENCOMM2 - dummy=1 if member of Senate Commerce, Science and Transportation Committee.

SENCOMM3 - dummy=1 if member of Senate Judiciary Committee.

SENCOMM4 - dummy=1 if member of Senate Finance Committee.

HSECOMM1 - dummy=1 if member of House Banking, Housing, and Urban Affairs Committee.

HSECOMM2 - dummy=1 if member of House Energy and Commerce Committee.

HSECOMM3 - dummy=1 if member of House Judiciary Committee.

HSECOMM4 - dummy=1 if member of House Ways and Means Committee.

CHAIR - dummy=1 if chairman of any of the above committees.

**APPENDIX 4:
LEGISLATORS SUPPORTING ANTITAKEOVER LEGISLATION**

House

Rose (NC)
 Swift (WA)
 Whitley (NC)
 Tallon (SC)
 Dowdy (MS)
 Jones (OK)
 Dorgan (ND)
 Markey (MA)
 Brooks (TX)
 Seiberling(OH)
 Feighan (OH)
 Glickman (KS)
 Howard (NJ)

Jones (TN)
 Weaver (OR)
 Huckaby (LA)
 English (OK)
 Edwards (OK)
 McCurdy (OK)
 Richardson(NM)
 Rodino (NJ)
 Edwards (CA)
 Hughes (NJ)
 Fish (NY)
 Smith (FL)
 Mineta (CA)

Senate

Nickles (OK)
 Chafee (RI)
 Chiles (FL)
 Ford (KY)
 Bingaman (NM)
 Wilson (CA)
 Spector (PA)
 Proxmire (WI)
 Danforth (MO)
 Goldwater(AZ)
 Gorton (WA)
 Tribble (VA)
 Inouye (HI)
 Gore (TN)
 Dole (KS)
 Kasten (WI)
 Rudman (NH)

Boren (OK)
 Domenici (NM)
 Murkowski (AK)
 Eagleton (MO)
 Simon (IL)
 Evans (WA)
 Riegle (MI)
 Metzenbaum (OH)
 Kassebaum (KS)
 Pressler (SD)
 Stevens (AK)
 Long (LA)
 Exon (NE)
 Rockefeller (WV)
 Packwood (OR)
 Johnston (LA)

Table 1
POLITICS AND CONTROL STUDY
 Average Firm Campaign Contributions per Legislator
 Correlations Across Inside Ownership Levels

| Level of Inside Ownership | 1% or less | 2-5% | 6-10% | 11-20% | 21-30% | 31-40% | 41-50% | Over 50% |
|---------------------------|------------|--------|--------|--------|--------|--------|--------|----------|
| 1% or less | 1.0000 | | | | | | | |
| 2-5% | 0.9340 | 1.0000 | | | | | | |
| 6-10% | 0.8955 | 0.9054 | 1.0000 | | | | | |
| 11-20% | 0.8865 | 0.9005 | 0.8731 | 1.0000 | | | | |
| 21-30% | 0.6243 | 0.6848 | 0.6843 | 0.6227 | 1.0000 | | | |
| 31-40% | 0.6420 | 0.6013 | 0.6842 | 0.6262 | 0.4426 | 1.0000 | | |
| 41-50% | 0.7354 | 0.7603 | 0.7144 | 0.6945 | 0.5192 | 0.4898 | 1.0000 | |
| Over 50% | 0.6257 | 0.6565 | 0.6714 | 0.6485 | 0.5212 | 0.4671 | 0.5964 | 1.0000 |

Sources: Federal Election Commission Campaign Expenditure Data, 1983-84, Center for Research in Securities Prices (CRSP) Tapes, Value Line Ratings and Reports, January-March, 1985.

Table 2
POLITICS AND CONTROL STUDY
Total PAC Campaign Contributions by Sponsoring Firm Market Value Quartile and Inside Ownership
Sample Summary Statistics, 1983-84 Election Cycle

| Market Value Quartile | Range of Inside Ownership | # of PACs | % of Total | Total Campaign Contributions per Group | % Total Contributions | Average Firm Campaign Contributions |
|-----------------------|---------------------------|-----------|------------|--|-----------------------|-------------------------------------|
| 1st (Lowest) | < 21% | 88 | 19.17% | \$929,746 | 5.83% | \$10,565.30 |
| | > 20% | 26 | 5.66% | \$304,791 | 1.91% | \$11,722.73 |
| 2nd | < 21% | 100 | 21.79% | \$2,487,445 | 15.59% | \$24,874.45 |
| | > 20% | 15 | 3.27% | \$212,936 | 1.33% | \$14,195.73 |
| 3rd | < 21% | 109 | 23.75% | \$4,215,952 | 26.42% | \$38,678.46 |
| | > 20% | 6 | 1.31% | \$147,370 | 0.92% | \$24,561.67 |
| 4th (Highest) | < 21% | 110 | 23.97% | \$7,370,679 | 46.19% | \$67,006.17 |
| | > 20% | 5 | 1.09% | \$287,611 | 1.80% | \$57,522.20 |
| TOTAL | | 459 | 100.00% | \$15,956,530 | 100.00% | \$34,763.68 |

Sources: Federal Election Commission Campaign Expenditure Data, 1983-84, Center for Research in Securities Prices (CRSP) Tapes, Value Line Ratings and Reports, January-March, 1985.

| <p style="text-align: center;">Table 3 POLITICS AND CONTROL STUDY Total PAC Campaign Contributions by Sponsoring Firm Market Value Quartile and Inside Ownership Sample Summary Statistics, 1981-82, and 1983-84 Election Cycles</p> | | | | | |
|--|---------------------------|--|-------------------------------------|--|-------------------------------------|
| Market Value Quartile | Range of Inside Ownership | 1983-84 Election Cycle | | 1981-82 Election Cycle | |
| | | Total Campaign Contributions per Group | Average Firm Campaign Contributions | Total Campaign Contributions per Group | Average Firm Campaign Contributions |
| 1st (Lowest) | < 21% | \$929,746 | 5.83% | \$664,158 | 6.59% |
| | > 20% | \$304,791 | 1.91% | \$152,434 | 1.51% |
| 2nd | < 21% | \$2,487,445 | 15.59% | \$1,631,202 | 16.18% |
| | > 20% | \$212,936 | 1.33% | \$121,216 | 1.20% |
| 3rd | < 21% | \$4,215,952 | 26.42% | \$2,556,730 | 25.35% |
| | > 20% | \$147,370 | 0.92% | \$72,925 | 0.72% |
| 4th (Highest) | < 21% | \$7,370,679 | 46.19% | \$4,724,103 | 46.85% |
| | > 20% | \$287,611 | 1.80% | \$161,095 | 1.60% |
| TOTAL | | \$15,956,530 | 100.00% | \$10,083,863 | 100.00% |

Sources: Federal Election Commission Campaign Expenditure Data, 1983-84, Center for Research in Securities Prices (CRSP) Tapes, Value Line Ratings and Reports, January-March, 1985.

Table 4
POLITICS AND CONTROL STUDY
 Sample Summary Statistics for Variables in Cross-sectional Analysis
 1983-84 Election Cycle

| Variable | # Firms | Mean | Standard Deviation |
|--------------------------------|---------|-------------------|--------------------|
| Contributions | 428 | \$25,964.18 | \$56,386.35 |
| Contributions/Market Value | 428 | \$22.545 | \$52.191 |
| Inside Ownership | 428 | 11.37% | 14.09% |
| Market Value (\$000,000s) | 428 | \$1,599.06 | \$4,591.84 |
| Log Market Value | 428 | 20.06 | 1.495 |
| Cumulative Abnormal Residuals: | | | |
| 48 Month | 428 | -0.130 | 0.521 |
| 12 Month | 428 | -0.058 | 0.217 |
| Total Debt/Total Assets | 428 | 18.04% | 15.04% |
| Institutional Ownership | 428 | 40.12% | 17.86% |
| 4-Firm Concentration Ratio | 428 | 42.72% | 18.95% |
| % Gross Government Sales | 428 | 4.29% | 10.22% |
| Dummy Variables | | # Firms Dummy = 1 | % of Total |
| Regulated Industry | 428 | 143 | 33.41% |
| Member Business Roundtable | 428 | 77 | 17.99% |
| # of Firms with PAC | 428 | 193 | 45.10% |

Sources: Federal Election Commission Campaign Expenditure Data, 1983-84, Center for Research in Securities Prices (CRSP) Tapes, Value Line Ratings and Reports, January-March, 1985.

Table 5
POLITICS AND CONTROL STUDY
Cross-sectional Determinants of Sponsorship of a Corporate PAC
1983-84 Election Cycle
Probit Regressions
(428 Firms Total, 193 Sponsoring PACs)

| Independent Variables | Model 1 | | Model 2 | |
|----------------------------|---------|------|---------|------|
| Intercept | -6.9614 | **** | -6.9920 | **** |
| | (1.21) | | (1.22) | |
| Inside Ownership | -0.0168 | **** | -0.0173 | **** |
| | (.0052) | | (.0052) | |
| Log Market Value | 0.3436 | **** | 0.3454 | **** |
| | (.0621) | | (.0625) | |
| Risk-Adjusted Performance: | | | | |
| 48 Month CAR | -0.0919 | | | |
| | (.1336) | | | |
| 12 Month CAR | | | -0.2120 | |
| | | | (.3196) | |
| Leverage | 0.0058 | | 0.0066 | |
| | (.0048) | | (.0048) | |
| Institutional Ownership | -0.0063 | | -0.0067 | |
| | (.0044) | | (.0044) | |
| Member Business Roundtable | 0.5873 | **** | 0.5789 | **** |
| | (.203) | | (.2023) | |
| % Government Sales | 0.9436 | | 1.006 | |
| | (.7045) | | (.7002) | |
| 4-Firm Concentration | 0.0004 | | 0.0004 | |
| | (.0036) | | (.0036) | |
| Regulated | 0.2975 | * | 0.3046 | * |

| | | | |
|---|-----------|--|-----------|
| | (.1567) | | (.1562) |
| Log Likelihood | -239.9557 | | -239.9723 |
| *** = significant at the 1% level. * at the 10% level. | | | |
| Sources: Federal Election Commission Campaign Expenditure Data, 1983-84, Center for Research in Securities Prices (CRSP) Tapes, Value Line Ratings and Reports, January-March, 1985, Department of Justice, Anti-Trust Division, Compustat, Spectrum 3 Institutional Holdings Survey. | | | |

Table 6
POLITICS AND CONTROL STUDY
 Cross-sectional Determinants of Campaign Contributions by Sample Firms
 1983-84 Election Cycle
 Tobit Regressions
 (428 Firms Total, 187 Firms Contributing)

| Independent Variables | Dependent Variable | | | | | | | |
|-----------------------|--|---------|---------------------------|---------|----------------------------|---------------------|---------|--|
| | Contributions to All Candidates 1984 Elections | | | | Contributions/Market Value | | | |
| | Model 1 | Model 2 | | Model 3 | Model 4 | Model 3 | Model 4 | |
| Intercept | -999504.81 (90401.32) | *** | -1008549.30 (89115.95) | *** | -43.2947 (29.19) | -39.0903 (28.72) | | |
| Inside Ownership | -1249.62 (397.39) | *** | -1131.19 (398.7) | *** | -2.0256 (.5094) | -1.8270 (.5069) | *** | |
| Log Market Value | 49646.57 (4727.76) | *** | 50194.33 (4682.66) | *** | | | | |
| Market Performance: | | | | | | | | |
| 48 Month CAR | | | -20820.51 (9928.36) | ** | | -37.7768 (13.65) | *** | |
| 12 Month CAR | -26371.51 (24352.7) | | | | -53.0976 (31.59) | | * | |
| Leverage | 699.52 | * | 505.31 | | 0.6959 | | 0.213 | |

| | | | | | | | |
|---|-------------------------|-----|------------------------|-----|--------------------|-----|--------------------|
| | (410.85) | | (408.68) | | (.5541) | | (.5565) |
| Institutional Ownership | -936.22 (364.53) | ** | -919.93 (360.5) | ** | -0.3319 (.4206) | | -0.3132 (.4122) |
| Business Roundtable Member | 39306.89 (13624.7) | *** | 40371.81 (13521.78) | *** | 33.37 (18.18) | * | 36.14 (18.01) |
| % Government Sales | 161206.32 (46425.83) | *** | 139666.4 (46482.03) | *** | 512.31 (73.70) | *** | 452.87 (76.06) |
| 4-Firm Concentration | 587.11 (257.1) | ** | 580.71 (254.11) | ** | 0.61 (.3596) | * | 0.6733 (.3525) |
| Regulated | 8278.73 (1486.58) | | 6827.09 (11474.46) | | 16.53 (15.77) | | 14.36 (15.68) |
| Log Likelihood | -2488.1601 | | -2486.5400 | | -1268.2168 | | -1265.8307 |
| ***, **, * = significant at the 1%, 5%, and 10% level | | | | | | | |
| Sources: Federal Election Commission Campaign Expenditure Data, 1983-84, Center for Research in Securities Prices (CRSP) Tapes, Value Line Ratings and Reports, January-March, 1985, Department of Justice, Anti-Trust Division, Compustat, Spectrum 3 Institutional Holdings Survey. | | | | | | | |

| <p align="center"> Table 7 POLITICS AND CONTROL STUDY Determinants of Mean PAC Campaign Contributions per Legislator by Sponsored Firm Market Value Quartile and Inside Ownership Level Tobit Regressions (537 Legislators x 9 Groups = 4833 Observations Total, 3115 Positive Contribution Amounts) Comparisons of Committee and Group Dummy Interaction Variables </p> | | | | | | | | | | | | |
|---|----------------------|-------------------|--|----------------------|-------------------|--|----------------------|-------------------|--|----------------------|-------------------|--|
| Model | 1st Quartile | | | 2nd Quartile | | | 3rd Quartile | | | 4th Quartile | | |
| | 20% or less (Group1) | Over 20% (Group2) | | 20% or less (Group3) | Over 20% (Group4) | | 20% or less (Group5) | Over 20% (Group6) | | 20% or less (Group7) | Over 20% (Group8) | |
| Inside Ownership | | | | | | | | | | | | |
| Independent Variables | | | | | | | | | | | | |
| Intercept | -34.88 | | | -30.89 | | | -40.04 | | | -16.73 | | |
| <21% Inside Ownership | 67.58 *** | | | 61.73 *** | | | 65.26 *** | | | 46.42 *** | | |
| Win8082 | -1.21 *** | | | -1.16 *** | | | -1.18 *** | | | -1.24 *** | | |
| Election Year | 703.99 *** | | | 712.76 *** | | | 713.35 *** | | | 689.37 *** | | |
| Seniority | 3.19 *** | | | 3.3 *** | | | 3.4 *** | | | 3.2 *** | | |
| CCUS | 0.73 ** | | | 0.69 ** | | | 0.7 ** | | | 0.69 ** | | |
| Incumbant | 67.18 *** | | | 63.56 *** | | | 64.32 *** | | | 65.2 *** | | |
| Open Race | 54.42 ** | | | 55.1 ** | | | 59.69 ** | | | 50.79 * | | |
| Democratic | -67.61 *** | | | -68.08 *** | | | -66.87 *** | | | -68.64 *** | | |
| House | -767.5 *** | | | -773.63 *** | | | -769.82 *** | | | -755.85 *** | | |
| Sencomm1 | 278.96 *** | | | 278.73 *** | | | 279.16 *** | | | 210.23 *** | | |
| Sencomm2 | -238.83 *** | | | -243.67 *** | | | -244.6 *** | | | -296.01 *** | | |
| Sencomm3 | 13.05 | | | 4.28 | | | -9.86 | | | -10.92 | | |
| Sencomm4 | -314.42 *** | | | -310.47 *** | | | -316.93 *** | | | -369.97 *** | | |
| Hfecom1 | 106.2 ** | | | 93.03 *** | | | 94.51 *** | | | 83.44 *** | | |

Table 7A
POLITICS AND CONTROL STUDY
Tests of Differences in Mean PAC Campaign Contributions per Legislator
by Sponsored Firm Market Value Quartile and Inside Ownership Level
 Ordinary Least Squares
 (537 Legislators x 9 Groups = 4833 Observations Total, 3115 Positive Contribution Amounts)
 Comparisons of Committee and Group Dummy Interaction Variables
 F-Test for Significant Differences between Group Coefficients

| Model | 1st Quartile | | 2nd Quartile | | 3rd Quartile | | 4th Quartile | |
|----------|------------------------------------|----------|------------------------------------|----------|------------------------------------|----------|------------------------------------|----------|
| | <21% Inside Ownership More or Less | Prob > F | <21% Inside Ownership More or Less | Prob > F | <21% Inside Ownership More or Less | Prob > F | <21% Inside Ownership More or Less | Prob > F |
| Sencomm1 | Less | 0.7105 | More | 0.4107 | More | 0.0150 | More | 0.0054 |
| Sencomm2 | Less | 0.9710 | More | 0.6612 | More | 0.1211 | More | 0.6879 |
| Sencomm3 | Less | 0.5890 | More | 0.4842 | More | 0.8837 | More | 0.0004 |
| Sencomm4 | Less | 0.3760 | More | 0.8595 | More | 0.4716 | More | 0.0353 |
| Hsecomm1 | Less | 0.3327 | Less | 0.5900 | More | 0.8183 | More | 0.0264 |
| Hsecomm2 | Less | 0.1398 | More | 0.5073 | Less | 0.5557 | More | 0.0001 |
| Hsecomm3 | Less | 0.5459 | Less | 0.7876 | Less | 0.0170 | More | 0.3690 |
| Hsecomm4 | Less | 0.1792 | More | 0.4980 | More | 0.4787 | More | 0.0002 |

***, **, * = significant at the 1%, 5%, and 10% levels respectively.

Sources: Federal Election Commission Campaign Expenditure Data, 1983-84, Center for Research in Securities Prices (CRSP) Tapes, Value Line Ratings and Reports, January-March, 1985.

Table 8
POLITICS AND CONTROL STUDY
 Determinants of Mean PAC Campaign Contributions per Legislator
 by Sponsored Firm with Low Inside Ownership, 1983-84 vs. 1981-82 Election Cycle Level
 Tobit Regressions
 (8168 Observations Total covering both election cycles, 4977 Positive Contribution Amounts)
 Comparisons of Committee and Group Dummy Interaction Variables

| Independent Variables | Coefficients | | | |
|----------------------------------|---------------------------|-----|---------------------------|-----|
| Intercept | -194.35 | *** | | |
| 1983-84 Election Cycle | 52.27 | *** | | |
| Win8082 | 0.14 | | | |
| Election Year | 513.15 | *** | | |
| Seniority | 1.6 | *** | | |
| CCUS | 2.38 | ** | | |
| Democratic | -42.91 | *** | | |
| House | -442.62 | *** | | |
| Sencomm1 | -49.35 | * | | |
| Sencomm2 | -32.24 | | | |
| Sencomm3 | 64.71 | ** | | |
| Sencomm4 | -263.23 | *** | | |
| Hsecomm1 | 37.77 | ** | | |
| Hsecomm2 | -71.19 | *** | | |
| Hsecomm3 | -129.34 | *** | | |
| Hsecomm4 | -36.85 | ** | | |
| Chair | 44.03 | | | |
| Interaction Terms: | 1983-84 Election Cycle | | 1981-82 Election Cycle | |
| <21% Inside Ownership x Sencomm1 | 234.10 | *** | -52.07 | |
| <21% Inside Ownership x Sencomm2 | -53.85 | | 38.30 | |
| <21% Inside Ownership x Sencomm3 | -78.78 | * | -21.19 | |
| <21% Inside Ownership x Sencomm4 | 153.81 | ** | 213.34 | *** |

| | | | | |
|---|-----------|-----|--------|-----|
| <21% Inside Ownership x Hsecomm1 | -38.32 | | -17.76 | |
| <21% Inside Ownership x Hsecomm2 | 104.52 | *** | 133.01 | *** |
| <21% Inside Ownership x Hsecomm3 | 87.48 | *** | 129.80 | *** |
| <21% Inside Ownership x Hsecomm4 | 94.34 | *** | 109.66 | *** |
| Log Likelihood | -22605.28 | | | |
| ***, **, * = significant at the 1%, 5%, and 10% levels respectively. | | | | |
| Sources: Federal Election Commission Campaign Expenditure Data, 1981-82, and 1983-84, Center for Research in Securities Prices (CRSP) Tapes, Value Line Ratings and Reports, January-March, 1985. | | | | |

Table 9
POLITICS AND CONTROL STUDY
Contributions and Support of Antitakeover Legislation
by Both Firm and Legislator Characteristics
Two-stage Least Squares

| Independent Variable | Dependent Variables | | | | | |
|----------------------|---------------------|----------------|-----|-------------|----------------|-----|
| | Contributions | | | Support | | |
| | Coefficient | Standard Error | | Coefficient | Standard Error | |
| Intercept | -248.02 | 11.15 | *** | 0.03 | 0.005 | *** |
| Inside Ownership | -0.52 | 0.1 | *** | | | |
| Log Market Value | 29.29 | 0.97 | *** | | | |
| 12 Month CAR | 1.08 | 5.26 | | | | |
| Bus. Roundtable | 22.12 | 2.83 | *** | | | |
| % Government Sales | 239.86 | 9.16 | *** | | | |
| 4-Firm Concentration | 0.73 | 0.06 | *** | | | |
| Regulated | 1.52 | 2.33 | | | | |
| Prev. Winning % | -0.24 | 0.09 | *** | | | |
| Election Year | 343.06 | 5.49 | *** | | | |
| Seniority | 1.38 | 0.17 | *** | | | |
| CCUS Rating | 0.5 | 0.08 | *** | 0.00109 | 0.00006 | *** |
| Incumbent | 32.94 | 5.55 | *** | | | |
| Open Seat Race | 38.59 | 6.98 | *** | | | |
| Democrat | -45.09 | 3.42 | *** | 0.09473 | 0.00294 | *** |
| House | -317.68 | 5.15 | *** | | | |
| Chair | 26.26 | 9.92 | *** | | | |
| SENCOMM1 | 65.98 | 7.34 | *** | | | |
| SENCOMM2 | -59.03 | 6.84 | *** | | | |
| SENCOMM3 | -46.84 | 6.51 | *** | | | |
| SENCOMM4 | -57.77 | 7.11 | *** | | | |
| HSECOMM1 | -21.41 | 3.9 | *** | | | |
| HSECOMM2 | 8.57 | 4.11 | ** | | | |
| HSECOMM3 | -32.2 | 4.42 | *** | | | |
| HSECOMM4 | 6.54 | 4.46 | *** | | | |

| | | | | | | |
|--|-------|--|--|----------|----------|-----|
| Hostile Target | | | | -0.0855 | 0.0019 | *** |
| Contributions | | | | 0.0011 | 0.0001 | *** |
| Contribs*Inside | | | | 0.000009 | 0.000002 | *** |
| Contribs*Log Market Value | | | | -0.00014 | 0.00002 | *** |
| Contribs*12 Month CAR | | | | -0.00007 | 0.00009 | |
| R-square | 0.077 | | | -0.044 | | |
| ***, **, * = significant at the 1%, 5% and 10% levels respectively. | | | | | | |
| Sources: Federal Election Commission Campaign Expenditure Data, 1983-84, Center for Research in Securities Prices (CRSP) Tapes, Value Line Ratings and Reports, January-March, 1985, Department of Justice, Anti-trust Division. | | | | | | |

CHAPTER 4: Campaign Money, Exclusionary Rents, and the Garn - St Germain Standoff in the 98th Congress (1983-85)

I. Introduction

Given recent efforts by financial services firms to cross sectoral product boundaries by means of organizational and financial innovation, research on financial institutions has begun to focus on the the basis for exclusionary regulation in financial services based on the Glass-Steagall Act. I attempt in this chapter to analyse the extent to which depository and non-depository firm political influence, competing for exclusionary rents, determine the structure of the financial services industry. An accepted model exists for investigating the extent of purchase of regulatory influence by an industry (e.g. Chappell (1982), Stratman (1992)). Using this model, I attempt to establish the relationship between industry campaign contribution activity and successful legislative lobbying effort. I then estimate the correlation between the amount of sectoral and individual firm contributions and the apparent rents at stake in the legislation. My study is relevant to the analysis of the persistence of Glass-Steagall exclusionary regulation; documenting a connection between rents and lobbying activity supports the hypothesis that repeal of the act will not come until innovations in securitization and other financial services sector technologies effectively dissipate these exclusionary rents.

I have chosen to analyse the 98th Congress (1983-84), during which the Reagan Administration and the Republican-controlled Senate sought to continue major regulatory changes in the banking industry begun in 1980 with the Depository Institutions Deregulation and Monetary Control Act (DIDMCA), and continued under the Garn-St Germain Act of 1982. Legislation introduced in the Senate in 1984 focused on eliminating the established separation between depository, securities underwriting, and insurance functions, in effect, repealing the Glass-Steagall Act. As might be expected, during the 98th Congress firms and trade associations representing the commercial banking, thrift, brokerage, and insurance sectors of the financial services industry provided \$5.9 million in registered campaign contributions to a group of 537 sitting or campaigning legislators (see Table 1A).

My contributions to the existing literature are: first, I attempt to establish this important connection between lobbying activity and expected rents for the various sectors; second, I incorporate appropriate simultaneous equation regression models in the analysis, improving the complete model specification; and, third, I study a period during which lobbying effort appears to have resulted in a stalemate, confirming the regulatory status quo.⁴⁶

⁴⁶ Other studies have focused on sessions of Congress other than the 98th, despite the fact that lobbying for and against repeal of Glass-Steagall was clearly important during this period. Even though no agreement on changes in the regulatory regime emerged at this time, other than closing loopholes based on statutory definitions of depository institutions, Congress was actively involved in the re-regulation of the industry. See Kane (1984) for a discussion of the competition for regulatory franchises

Based on an analysis of patterns of campaign contributions over the 1983-1984 period by firms and trade associations in the financial services industry, differences can be documented in the ways different sectors spend their political action committee (PAC) money. Depending on the category of PAC, legislator ideology, election status, committee assignments, party affiliation, and chairmanships of relevant committees are significant determinants of the level of contributions. The two particularly important legislative actors, Jake Garn, republican chair of the Senate Banking Committee, and Fernand St Germain, the democratic chair of the House Banking Committee, have significantly different patterns of contributions, with St Germain, who successfully blocked deregulation during this session of Congress, receiving more of his support from the brokerage, and insurance sectors.

Analysis of the differences in contribution levels between depository and non-depository institutions reveals that membership on the House Banking Committees is a significant determinant of contributions by depository institutions. However, the depository sample of PACs donate significantly less than the brokerage and insurance PACs to Fernand St Germain, the House Banking Committee chair, and the legislator most responsible for directing House action on a deregulation bill. Non-depository PACs target their contributions to members of both the Senate Banking Committee and the House Committee, thus spreading out their donations while at the same time

during this period.

contributing heavily to the committee chairs.

When individual votes are analysed in a two-stage-least-squares analysis, the results suggest that depository sector contributions succeeded in influencing individual votes on the Senate floor and in the House Banking Committee on the main deregulation bills. When a Senate vote on the insurance issue is analysed, contributions by the competing sectors are not a significant determinant of voting behavior.

I then seek to measure the rents at stake in the legislation for the competing sectors. The results of a conventional two-factor market model event study, similar to those proposed in Kane and Unal (1988), show that returns for portfolios of NYSE-AMEX firms in both the commercial banking and thrift sectors experience significant abnormal positive returns on the day of the Senate floor vote on the bill in question. A portfolio of insurance sector firms responds negatively for only one event (the vote reporting the Senate bill out of committee) for only one event window, significant at the 10% level. Returns to the portfolio of brokerage firms are not affected at all by legislative action during this period.

The fact that there are differences in my measured rents for the two competing sectors contradicts the impression one receives from the campaign finance data, i.e. that the contest is a zero-sum game for the participants. To try and analyse this anomaly further, I draw up a matched sample of firms for which I have both stock price data and campaign contribution data, and regress the individual firm cumulative

abnormal residuals around the most informative events against their levels of campaign contributions. I do this to see if the individual firms most affected by the legislative events, i.e. those that stand to gain or lose the most in rents, are, in fact, the most active rent-seekers. Results show that the firms for which market stock price reaction is greatest, either negative or positive depending on the nature of the vote and the sector's interests, also contribute the most to various classes of legislators. These results extend to non-depository firms for the last event date, on which both Garn and St Germain announced there would be no new legislation from the 98th Congress.

I conclude that the market in general interpreted the Senate legislation as potentially profitable for the depository sectors, and that the non-depository sectors' lobbying effort, including as it did substantial campaign support for House Banking Committee Chairman St Germain, was, at least, associated with the stalemate which blocked deregulation potentially harmful to the sector. This analysis suggests that both the depository and non-depository sector PACs correctly undertook rent-seeking actions, based on the connection between market value impacts and lobbying effort.

Section II of this paper contains the literature review, provides some background on the legislation emerging dealing with regulation of the banking industry during the 98th Congress, and sets out the testable hypotheses of the paper. Section III discusses the data and methodology used, and Section IV presents the results of the statistical analysis. Section V concludes.

II. Political Activity and Financial Services Regulation

A. Literature Review

Kane has a series of articles and books in which he discusses the regulatory environment in the banking industry, and which provide the basic background for this study. In Kane (1984), he uses the contestability model of multimarket competition to suggest that structural changes in the banking industry are being driven by technological changes which lower production costs and increase economies of scope. He proposes that the federal government is "re-regulating" a once stable industry, to maintain artificial product boundaries for certain industry groups. He feels it is natural for lobbyists from an invaded industry to "fight a rearguard political action to delay change".

In his 1995 paper on regulatory restricting on banks selling insurance, he presents a model which suggests that at a certain point in the technological innovation in an industry, the need and pressure for political reform forces an accelerated change in the regulatory regime. Now that banks have developed innovative securities which mimic the characteristics of insurance contracts, he believes that the artificial barriers between the banking and insurance industries have become sufficiently meaningless. This argument is similar to the one proposed by Jarrell (1985). In that paper he hypothesizes that when the rents to regulatory barriers protecting trading order flow for securities on the NYSE decreased sufficiently, due to increases in off-board trading, it

was no longer cost-effective to lobby to prevent regulatory change, and, in 1975, there was a liberalization of order flow requirements for some securities. It is also similar to the argument found in Merton (1994) that innovation in securitization has made it increasingly difficult to maintain artificial barriers between the various sectors of the industry.

Edwards (1987), writing on the need for regulatory reform, calls the financial system "a regulatory (or government) fostered cartel, complete with rigid entry barriers and regulation to prevent "destructive" competition". In his view, the volatility of interest rates, international competition for financial services, new technologies for communication, information, and funds transfer have all led to a brave new world where the old artificially imposed boundaries between the government sponsored cartels are going to crumble despite regulators' efforts. He recommends exposing the industry to market discipline, with the only regulatory constraint based on competitive principles, and anti-trust law.

Colburn and Hudgins (1995) investigate the degree to which inadequately capitalized thrifts capture regulatory legislative action by the House of Representatives. They include the effect of campaign contributions by under-capitalized thrifts (and other legislator characteristics) on voting behavior, as well as industry structure variables. The strength of their model, however, is in their measures of constituent preferences, which describe the pressure on an individual legislator from interest

groups in their district based on the financial health, asset composition, and reliance on regulatory forbearance of their home thrifts.⁴⁷ These variables are taken from the empirical finance literature predicting thrift bankruptcy or closure, and include such data as capital-to-assets, goodwill-to-total-assets, district-insolvent-thrift-assets-to-total-district-thrift-assets, non-traditional assets, liquidity, etc. They do not use a simultaneous approach, opting to follow Silberman and Durden (1976) running a single Probit equation in their estimations.

They look at three different bills, and specific proposed amendments to the bills, in their voting analysis: the Garn - St Germain Depository Institutions Act of 1982, the Competitive Equality Banking Act of 1987, and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. They use a multi-chotomous probit specification⁴⁸ for their empirical model, calculating the probability of being in a particular, hypothesized voting category on these bills and amendments. Of their financial variables, they find the amount of housing related assets (long-term fixed rate assets primarily) and liquidity are significantly related to voting support in 1982 for

Regulatory forbearance allowed troubled thrifts time to alleviate under-capitalization without being taken over and forced to close. The intent was to allow thrifts to correct problems with capital infusions or mergers with healthier thrifts without regulatory involvement or governmental expenditures.

The multi-chotomous variable is equal to zero if a legislator supports none of the amendments or bills, 1 if the legislator supports one of them, and takes on higher values as the legislator increase his or her support by voting for more than one of the amendments.

inadequately capitalized thrifts. While they do not find that contributions from the interest group are associated with votes in 1982, contributions appear to play a larger, and significant role in the 1987 vote. They conclude that the financial, constituent preference variables (in particular, asset composition) are more important than the traditional campaign contribution (Public Choice) variables in explaining voting patterns during the early period. Their findings from the later votes in 1987, and 1989, however, appear to suggest that legislators were less influenced by the under-capitalized segment of the thrift industry in their districts for those votes.

Romer and Weingast (1991) also have a section on "the politics of legislative delay and forbearance, 1986-87." In their study, the House passes a bill which contains \$15 billion in new borrowing authority for the FSLIC to support their thrift bailout programs. The bill also weakened regulators' positions with respect to insolvent thrifts. The Senate passed a bill with only \$3 billion in borrowing authority, which included deregulation of commercial banking allowing expanded marketing powers for commercial banks. The bill I am studying in this chapter amounts to the earlier version of this same stalemate. Romer and Weingast study the voting on a St Germain amendment to a bill in the 100th Congress (1987-1988) to see if the opposition of healthy thrifts played an important role in defeating the amendment. They suggest that healthy thrifts, worried about the additional assessments required to help pay for the additional funding authority of the FSLIC, would lobby against the

amendment. Their model is very similar to the Colburn and Hudgins model, with fewer variables, including only a somewhat crude measure of the number of insolvent thrifts per district in a given state. They find that the probability of voting against the St Germain amendment is significantly higher for legislators from states where the average number of healthy thrifts is higher. They conclude that the constituent preferences in their model do influence legislative action.

Havrilesky (1991) uses the basic political model to test differences in influence between small and large financial institutions. He finds in his probit regressions that contributions as a percentage of total bank contributions is a significant determinant of legislative support for their hypothesized legislative interests. He also does not run the full, two-stage-least-squares or simultaneous Probit-Tobit model.

There are many studies of the impact of regulatory change on financial services sector firm values, particularly in the period between 1978 and the present (see Eisenbeis, Harris, and Lakonishok (1984), Flannery and James (1984), Kane and Unal (1988), Blacconiere (1991), and Graddy, Kyle, and Strickland (1994)). Many of these papers utilize a two-factor model, containing both a market benchmark as well as an interest rate factor, for determining abnormal returns to financial institutions. Kane and Unal (1988) also discuss the problem of estimating shifting parameters for the market model during this period of radical regulatory change. They propose utilizing a switching regression approach which will isolate, and measure the significance of,

parameter shifts due to factors not incorporated in the model. Taking account of these parameter shifts allows unbiased estimates of abnormal returns due to the hypothesized information events.

B. Choice of Study Period

The system of bank regulation established during the depression, including the Federal Deposit Insurance Corporation begun in 1933, and the Banking Act and the Glass-Steagal Act of the same year, remained roughly intact through the early 1980's. Rising interest rates in the late 70's, along with technological changes, led to pressures to revamp the system. As banks and non-bank firms seeking higher rates of return began to enter new product lines, and new regional or national markets, the old market lines began to disappear.

The Depository Institutions Deregulation and Monetary Control Act of 1980 (DIDMCA) sought to alleviate the squeeze on savings and loans by lifting interest rate ceilings, and allowing other changes aimed at improving their competitiveness for deposits. Fernand St Germain, chairman of the House Banking Committee, proved to be one of the staunchest defenders of S&L's, arguing primarily for extending federal support and insurance for thrifts. The Garn-St Germain Act of 1982 (HR 6267) provided federal financial assistance to thrifts, and allowed them to invest more in non-residential real estate. But the bill did not expand markets significantly for commercial banks, failing to give them rights to sell insurance or underwrite certain securities, such

as revenue bonds.

Deregulation was again taken up in the 98th Congress, in 1983-84, with a new round of drafts by both the Senate Banking, Housing, and Urban Affairs Committee, chaired by Garn, and the House Banking, Finance, and Urban Affairs Committee under St Germain. This time St Germain balked at the concept of eliminating barriers between depository institutions and securities and insurance, arguing instead for the need to close loopholes in sector definitions that were allowing large banks to enter markets historically closed to them. When securities firms and other non-bank firms, such as large retailers, began to utilize the non-bank bank loophole in the 1956 Bank Holding Company Act to engage in banking activities, and then Citibank, a large money center bank from headquartered in New York, fought back by chartering a state bank in South Dakota to sell insurance, it became clear that historic lines in the finance industry were dissolving. St Germain, and the chairman of the Senate Finance Committee, Jake Garn of Utah, agreed that they would try and maintain the legislative prerogative of regulating financial services by drafting new legislation. They did not agree on the focus of the legislation, however.

The House committee reported St Germain's bill (HR 5916) in July of 1984. The vote to report went 32 for, and 16 against. The bill contained little in the way of new powers for banks, and represented an anti-deregulation, or re-regulation banking bill. For example, a clause in the bill would have restricted state-chartered banks from

selling insurance across state lines. Both the Senate and House bills were called the Financial Institutions Equity Act of 1984⁴⁹. The bill ensured that affiliations between deposit taking institutions and firms engaged in specified securities activities were prohibited.

Chairman St Germain was careful not to allow a bill containing expanded powers for depository institutions. On the day of the vote in committee (6/26/84), he ruled that an amendment, which would have authorized banks and thrifts to deal in certain mortgage-backed securities, to be out-of-order, killing it on a procedural ruling. St Germain set out in his legislation to close the non-bank bank loophole, which had allowed New York's U. S. Trust Co. to open a bank in Florida by promising to refrain from commercial lending. This loophole provided large banks with a means for entering new markets in states once off limits. Although the bill was reported out of committee it did not come to a floor vote in the House.

The Reagan administration embraced the philosophy of deregulation, and Garn adopted this approach in the republican-controlled Senate. Senate Bill S 2851, which actually came to a vote on the Senate floor, allowed bank holding companies to form subsidiaries to underwrite mortgage-backed securities, municipal revenue bonds, and

Representative Paul wrote in the House Report on the bill (HR 98-889) that "the only 'equity' in this legislation is the impact it will have on the corporate equity prices of insurance companies, certain stock brokerage firms, and S&Ls that are heavily involved in mortgage banking." (P. 63)

commercial paper, as well as provide discount brokerage services.⁵⁰ The Senate also recorded a specific vote on granting insurance marketing privileges to bank holding companies. This insurance amendment was defeated 38-56. The main bill passed the Senate 89-5, but was very different from the House version reported out of committee.

No reconciliation of the two conflicting bills was achieved during the 98th Congress. It is in this sense that there was a "stand-off" between the Senate and House, and between Garn and St Germain. Deregulation met with a strong negative response from those within Congress and the industry who preferred the status quo.

C. Testable Hypotheses

Existing research suggests that political activity by financial services sectoral interest groups should exhibit rent-seeking behavior during the legislative sessions of the 1980s, when the agenda was deregulation, and there were still sufficient rents at stake to maintain the artificial barriers between the sectors. I test two specific hypotheses with respect to campaign contributions alone. First, I test the hypothesis derived from the service-induced voting model introduced in Chapter 2, i.e. financial industry PACs will contribute to those legislators who can provide regulation supporting their interests at the lowest cost. Given information that the Senate was

Senator D'Amato from New York, who was one of only five senators to vote against the bill on the floor (Moynihan of New York was another), voiced the concerns of the securities industry in his dissenting comments on the Senate Report (SR 98-560). He saw no reason to tamper with "the diverse and dynamic capital markets which...owe their success to the separation of banking and securities dealings mandated by the Glass-Steagall Act."

predisposed ideologically to support deregulation, depository institutions will contribute more to Senate republicans than non-depository PACs, who should contribute more to House democrats. Second, the coefficients on the contributions variable in an equation estimating the determinants of voting support will reflect the marginal influence on legislative action derived from this lobbying activity. Where the dependent variable (the direction of the vote) is defined as pro-depository institution, for example, the coefficient on contributions by the depository firms' PACs should be positive, and the coefficient for non-depository firm PACs' contributions should be negative.

I hypothesize as well that the measured impacts on the stock prices of the different sectors of the financial services industry are correlated with the level of political activity on behalf of the sector. First, I expect to see positive abnormal returns to a portfolio of depository PACs upon release of information increasing the probability of repealing Glass-Steagall restrictions. For example, the adoption by the Senate of the Garn deregulation bill should have a positive impact on market and interest rate adjusted depository holding period returns, and the opposite impact for portfolios of non-depository firms. Second, the level of abnormal returns should be correlated with lobbying effort. Sectors which experience significant positive impacts on expected future cash flows due to regulatory changes should, *ceteris paribus*, have lobbied more extensively for their adoption. While there have been numerous studies both of PAC influence on voting outcomes, and of stock price impacts of financial

services regulatory changes, no study to my knowledge has tried to determine if the affected sector is efficient in pursuing rent-seeking lobbying behavior. This is the flip side of the Kane/Jarrell/Merton hypothesis alluded to above. Under their hypothesis, affected sectors should cease efforts to defend regulatory cartels when the expected profits from those cartels erodes to the point where it is no longer efficient to pursue costly lobbying effort. I can help establish the validity of this hypothesis if, during this earlier period, lobbying effort is directly related to expected future sector profitability.

III. Data and Methodology

A. Data

The methodology used in the paper depends crucially on Federal Election Commission (FEC) Campaign Expenditure data. The FEC was created by Congress to monitor spending by candidates and interest groups in elections for congress and the presidency. All contributions by groups to a specific candidate must be funnelled through a "political action committee" (PAC) registered with the FEC. PACs are allowed a maximum contribution limit of \$10,000 per candidate per election cycle (lasting two years). This limit includes all expenditures on behalf of a candidate as well. PACs sponsored by corporations cannot funnel money directly from a firm to a candidate, but can receive financial support to cover operating expenses associated with fund-raising efforts among employees and other corporate constituents.

The contribution data used in the study come from the Federal Election Commission's Campaign Expenditures in the United States, 1983-84 for the 1983-84 election cycle.⁵¹ Contribution amounts made by particular PACs for individual legislators are taken from the non-party cross-tabulation files. For the interest group analyses, the amounts are summed by legislator within the different PAC categories, i.e. banks, bank trade associations, savings institutions (including S&Ls and savings banks), savings trade associations, major brokerage houses, securities dealers trade associations, insurance companies, and insurance trade associations. PACs are placed in these categories according to their listed sponsor on the non-party spread file. In cases where I could not determine what type of a firm sponsored the PAC from the name alone, I left it out of the sample.

Table 1A contains descriptive statistics of the number of PACs in each interest group, total contributions by each PAC category, mean PAC contributions per legislator, the maximum legislator contribution in the category, and the mean legislator contribution (totals divided by 537 legislators). The sample sizes vary from 196 banks, to only 9 brokerages and 2 securities trade associations. Banks gave the largest single contribution, \$41,230, to Senator Gramm of Texas. The insurance trade associations gave \$28,800 to Representative St Germain of Rhode Island. The total sample

Specifically, the tapes used were made available by the Inter-University Consortium for Political and Social Research (ICPSR 8511), and were originally collected by the FEC. (Neither group wishes to bear any responsibility for analyses or interpretations of the information.)

contributed over \$5.9 million to 537 legislators.

Correlations between the contribution amounts by interest group (see Table 1B) indicate that among the different interest groups in the financial industry, there is not a lot of variation in contribution patterns. Correlations throughout the data set are uniformly high, over the 50% mark in all cases. PACs in the industry are focusing on a similar set of legislators for their contributions. The lowest correlations are between the contributions by S&Ls and the insurance industry (.54478), and commercial banks and both S&Ls and brokerages (.58512 and .58278 respectively). Table 1C contains summary statistics for the continuous independent variables, and the dependent variable, mean per PAC per legislator contributions.

I also constructed a file of legislators from the same source using the House/Senate spread tape as a master list. For most of the analysis, I reduced this file down to only those individuals who stood as incumbents not up for election in the Senate, or who ran in and won their respective elections in November, 1984. This is the set of legislators for which I have a full set of data for the voting model. Data on previous winning percentages, seniority, and committee assignments were taken from various references on legislative affairs (Congressional Quarterly Almanac, Guide to U.S. Elections, and Committees in the U.S. Congress). Chamber of Commerce rankings for individual legislators was taken from Directory of Congressional Voting Scores and Interest Group Ratings for 1984. Once this file was complete, I merged it

with the summed contribution data from the non-party cross-tabulation to give a data base containing the amounts given by each PAC category to each individual legislator. Appendix 1 contains descriptions of the variables in this data set.

I construct the sector portfolios analysed in the event study using compustat standard industrial classification codes. After developing the original samples of firms in the commercial banking, thrift, brokerage, and insurance sectors, I use returns for those firms which operated throughout the 1983-84 period as reported on the CRSP files (for NYSE and Amex firms only) along with data on firm market value, and value weighted market returns. Portfolio returns are value-weighted returns for the securities comprising the sector groupings. The commercial bank, thrift, brokerage, and insurance portfolios contain 48, 16, 10, and 30 firms respectively.

For the interest-rate sensitive factor in the two-factor market model I use a composite-maturity treasury bond index compiled by Shearson Lehman for this period. Returns for this price index are calculated as simple holding period returns for the period equivalent to that covered by the CRSP holding period returns. Two indices are used; one contains index prices not including coupon payments, the second includes reinvestment in the index for all coupon payments. Results are similar using either of these indices.

B. Influence Model and Methodology

The working model of campaign contributions and influence used for my

analysis contains the assumption that PACs associated with corporations and trade associations provide contributions to candidates as quid-pro-quo for services to be rendered at a later date.⁵² Candidates provide services which are costly and charge accordingly. They have neither a monopoly on legislative influence sales, nor is the market perfectly competitive, and there are some constraints on the amount of legislative services they can supply. PACs donate to those candidates who have the lowest costs of providing legislative services, and who can thus provide them at the lowest price. These legislators are low-cost because they are the most powerful (chair important committees, have seniority, incumbency), are the most ideologically sympathetic (high Chamber of Commerce, or business rating), and have a supportive constituency (measured with some proxy for constituent preferences). Candidates can

⁵² In Morton and Cameron's (1992) terminology, these contributions are service-induced. These contingent service claims are purchased according to the following model:

$$G_i(\theta) = p_i R(s_i, \theta) - C_i(1)$$

which equates the gain to contributions to the probability of the candidate's being elected times the return from contributions (i.e. the expected return) minus the cost of the contributions. PACs will donate until the marginal expected returns are equal to the marginal costs. It is important to recognize that in this model PACs will take into consideration the probability of the candidate's being elected within the election cycle, and will spend more funds on the sure winner and less on the long-shot candidate. This approach focuses entirely on the service-induced rationale, even though others have suggested that PACs pay attention to their impact on election outcomes, e.g. Poole and Romer (1985) found that contributions are significantly negatively related to previous election margins.

also have a high probability of winning (measured by incumbency or previous vote margin).

Chappell (1982) uses a simultaneous equation model for determining levels of influence from campaign contributions. The two-equation system is as follows:

$$\text{vote}_i = \text{contributions}_{ij} + \text{party}_i + \text{ideology (ACA)}_i + \text{appropriate constituent preference measure}_i$$

$$\text{contributions}_{ij} = \text{committee dummy}_i + \text{incumbency}_i + \text{previous vote margin}_i + \text{party}_i + \text{ideology}_i + \text{appropriate constituent preference measure}_i$$

where i = legislator i , and j = interest group or firm j . The first, or vote, equation is a PROBIT model with a dichotomous dependent variable equal to 1 if the legislator sides for the interest in a specific roll-call vote. The second equation, the contribution equation, where the dependent variable is restricted to being positive, comprises the TOBIT portion of the model. The TOBIT equation contains explanatory variables dealing with power and likelihood of winning an election which do not figure in the voting equation, thus allowing the simultaneous estimation. Both equations include a set of exogenous variables which theoretically establish a candidate's initial position on an issue; contributions then cause shifts away from that particular position.⁵³

Variables not in the model specification include: logrolling effects on voting patterns, vote-trading, some provision for punishment of those contributors who also give money to an opponent, other forms of contributions (unreported bribes, in-kind gifts), and most importantly, solicitation, or lack thereof, by candidates, although previous winning percentage might be an inverse proxy for this latter variable.

Where Chappell and Stratman (1992) use a two-equation approach, Poole and Romer (1985) use a single equation estimation technique to describe the sources of contributions⁵⁴. They focus on ideology, defining a variable which is comprised of multiple interest group indices, rather than just one (e.g. Americans for Democratic Action, Chamber of Commerce, etc.). Grier and Munger (1991) model the effect of legislative institutions and constituent preferences on the abilities of incumbent legislators to serve specific interest groups. They find support for the view that committees are more powerful than originally thought, and that individual legislators have agenda setting and legislation drafting power which enables them to provide significant services to interest groups.

They separate contributors into interest groups, and then estimate the same regression equation for each one, noting the parameters will vary cross-sectionally.

The equation they estimate is

$$\text{Contribution}_{ij} = B_0 + B_1(\text{last vote margin}_i) + B_2(\text{Freshman dummy}_i) + B_3(\text{Seniority}_i) + B_4(\text{Chamber of Commerce Vote Index}_i) + B_5(\text{Chamber of Commerce Vote Index}^2_i) + B_6(\text{Democrat}_i) + \text{Sum}_k[B_k(\text{Committee}_{ki})] + e_{ij}$$

where i = individual legislators, j = particular interest groups, and k = particular committee assignments.

I perform an analysis similar to Grier and Munger (1991) by dividing my sample into "interest groups" based on membership in a particular sector of the

Kau and Rubin (1985) comment on the problems with the single equation approach in the same issue of Public Choice.

financial services industry. This analysis attempts to determine if there are any systematic differences in the patterns of contributions between the hypothesized interest groups. For my single-equation test I focus on the significance of interest group dummy variables and their interaction with other variables of interest, in particular, the committee membership, chairman, and Garn and St Germain dummy variables. By stacking all of the observations for all legislators and all interest groups, and then identifying the different interest groups using dummy variables, I can test the differences between the groups directly. The following empirical model is used:

TOBIT

Average Contributions_{ik} = F(Likelihood of Reelection_i, Election Status_i, Party Affiliation_i, Ideology_i, Power_i, Interest Group Identifiers_k, Interaction Terms - Group x Committee_{ik})

(_i = Legislator I, and _k = Interest Group K)

Here, average contributions are defined as the total amount of contributions from all of the firms in a particular interest group (Interest Group K) divided by the number of firms in that defined interest group. Use of TOBIT allows for a truncated left-hand-side variable (here, contributions are never less than zero).

Following Chappell (1981), Grier and Munger (1991), and Stratman (1992), a two-equation system is then used to describe the influence of campaign contributions on the level of services (votes) provided by legislators to interest groups. However, where Chappell and Stratman used a simultaneous PROBIT-TOBIT (SPT) model, I have

substituted two-stage-least-squares (2SLS). I use two-stage-least squares to link the dichotomous variable, the vote on a particular bill, with a legislator's predisposition to support a particular issue (party, ideology), and the amount of contributions from interested PACs. An index of constituent preferences are not included in this analysis.⁵⁵ Theoretically, contributions will increase or decrease at the margin a legislator's predisposition to support a given issue. A two-stage or simultaneous approach is necessary because contributions to a candidate are not totally independent of the calculation, by the contributor, of whether or not a candidate will support an issue; either they might contribute to those with a higher probability of supporting an issue, or they will expend monies to change opposing legislator's minds on an issue. In either case, the error terms for the two equations might be correlated, dictating that they either be estimated simultaneously or in a two-stage process.

There are definable constituent differences that might affect this analysis. Larger concentrations of firms in a particular sector within a legislator's district would affect that legislator's support for specific legislation. For example, insurance firms are over-represented in Connecticut, and would influence their legislators' predisposition to vote for the industry without having to contribute significantly. Another possible difference would separate the interests of small commercial banks from large banks; small banks opposing blanket deregulation on the grounds that it would make the large banks too competitive (see Havrilesky (1990)). This might be proxied by urban vs. rural constituencies. Colburn and Hudgins (1993) separate in their analysis "inadequately-capitalized" thrifts from financially sound S&Ls to determine the level of regulatory capture of this sector of the industry. However, for this analysis I am leaving this variable out, i.e. assuming the distribution of the different categories of financial service firms is not systematically distributed geographically.

C. Event Study Methodology

Abnormal returns, my measure of rents, are determined in a regression event-study framework. The two-factor regression model contains the following elements:

$$R_{jt} = \beta_{0j} + \beta_{1j} R_{mt} + \beta_{2j} u_{dt} + \sum \phi_{\tau} D_{\tau} + e_{jt} \quad (2)$$

where R_{jt} is the daily rate of return on portfolio j (commercial bank, thrift, brokerage, or insurance portfolios), R_{mt} is the daily rate of return on the value-weighted CRSP index for day t , u_{dt} is the residual from regressing the bond index on the market for day t , and D_{τ} is a dummy variable set equal to one for day -1 , and 0 for each event treated in the analysis. I first orthogonalize bond index holding period returns by regressing them against market returns from CRSP, then use the computed residuals from this model in the portfolio market model regressions to calculate abnormal portfolio returns. Coefficients for the event day dummy variables provide unbiased estimates of the shift in returns associated with information released on that day. For event windows greater than 1 day in length, dummy variables equal to 1 for every day in the event window provide coefficients equal to the average abnormal daily return for the period. The data cover an event period extending from 270 days prior to the first event to 1 day after the last event in the legislative chronology.

D. Correlations between Contributions and Estimated Rents

For the last empirical test, which attempts to estimate whether or not there is a

correlation between event period abnormal returns (rents) and lobbying activity (contributions), I run a model similar to the one used in the previous portfolio event study for individual firms. The firms included in this analysis are only those for which I have both complete stock price data from CRSP, and PAC identifiers from the FEC campaign expenditure data file. I also only include those events as dummy variables in the two-factor model which exhibited significant reactions for the portfolio analysis. I first run each firm independently, calculating the coefficients on the two-day event dummy variable. I then regress (using OLS) the product of these coefficients, which represent the average two-day abnormal residual, and the firm's market value as of the beginning of the fourth quarter, 1984, on the amount of contributions the firm made over the 1983-84 election cycle to various groupings of legislators. I am testing the significance of the coefficients on this contribution variable, determining the level of correlation between calculated rents and lobbying effort for the individual firms.

IV. Findings

A. Contribution Patterns and Vote Determinants

Table 2 contains the estimates of the determinants of mean PAC contributions for each of the eight PAC categories run separately, i.e. the 537 legislator observations for each group are not stacked, but run independently. Variables which are consistently significant include: whether or not the legislator is up for election

(positive), whether or not the candidate is running for the House or Senate (House candidates receive less on average than their Senate counterparts), membership on the House Banking Committee (positive), and the dummy for Representative Fernand St Germain, chair of the House Banking Committee. Representative St Germain appears to receive significant attention from four of the six PAC categories for which his legislative agenda provides support. Thrift industry associations, as well as individual brokerage houses, appear to donate aggressively to members of the Senate Banking Committee.

When the individual PAC categories are aggregated into the four specific interest groups and run separately (see Table 3), the pattern of differences between the depository and non-depository groups becomes more clear. In general, the small sample of brokerages are the most "directed" on the issue at stake. They contribute significantly more to the two banking committees (SENCOMM1, HSECOMM1), to the chairs of the committees, and to St Germain. Insurance sector PACs also donate twice as much as thrift PACs to St Germain during this election cycle. Both depository sector PAC groups appear to contribute consistently to members of the two banking committees.

Table 4 contains the results of stacking all observations for all eight interest groups, and analysing directly the significance of interaction term coefficients. At this stage in the analysis I group PACs into depository and non-depository interest groups,

identified in the model by dummy variables. These variables become the model's intercept terms. When I calculate coefficients for the interaction terms between the group identifier dummy variables and the committee membership dummy variables, I am estimating the differences in the rate of contributions between the hypothesized competing interest groups. Thus, if the slope dummy coefficient on the interaction term for depository x Senate Banking Committee is significant and less than the slope dummy for the non-depository sector, then there is evidence that depository firms donate less on average than their rivals to this one committee.

The intercept coefficients for both groups are significant, with the non-depository group donating more on average than the depository group. The non-depository group also donates significantly more to Representative St Germain (\$1,641 vs \$-209). The depository group slope dummy for the House Banking Committee is positive and significant; depository firms donate on average \$130 more per PAC to legislators on the Banking Committee. However, the non-depository group donates significant and positive amounts to all three committees, including the House Energy and Commerce Committee (the Finance Sub-committee of Energy and Commerce was chaired by Tim Wirth of Colorado, another deregulation opponent.) The non-depository group concentrates significantly more lobbying activity in the Senate Banking Committee.

The first set of 2SLS regressions (see Table 5) analyses the general vote,

recorded on the floor of the Senate on the Garn bill combined with the committee vote for the St Germain version⁵⁶. Thus this index is the most general one for or against the complete package of legislation. A vote which was pro-bank (for in the Senate, against in the House Banking Committee) is set equal to 1 for these regressions. There were 89 yes votes and 5 no votes in the Senate event, and 12 no votes (interpreted as pro-deregulation, and assigned a dummy value of 1), and 29 yes votes (anti-deregulation), for a total of 41 observations in the House Banking Committee vote to report the St Germain bill to the floor. The coefficient on contributions for the depository group is positive and significant (.005895), indicating that contributions from banks and thrifts combined were a significant determinant of support for deregulation (repeal of the Glass-Steagall restrictions) in the combined House and Senate votes. The coefficient on contributions by non-depository institutions (brokerages and insurance firms combined) is not significant.

Reports covering this legislative issue tend to support the notion that the House Committee Chair, Fernand St Germain, held back the legislation from action on the House floor because he feared attempts to alter the legislation to a form similar to Garn's bill. My statistical findings to some extent support this version of events; depository institutions may have focused on generating votes, while non-depository institutions may have focused their contributions on the strategy of blocking new

The vote in the Senate Banking Committee to report the bill to the floor was unanimous.

legislation using the support of the influential House Banking Committee Chair. However, it is important to note that these contribution patterns may be less an immediate reaction to pending legislation than a long-term pattern of donations establishing a relationship between the different interest groups and a set of legislators.⁵⁷

The Senate also recorded a vote on the insurance amendment to the Garn bill on the floor, and this vote is treated separately. Again, a vote which is pro-bank is set equal to 1. There were 36 yes votes on this issue, and 55 no votes, for a total of 91 observations. Table 6 contains the results of the 2SLS vote equation for this issue. Contributions do not appear to be a significant determinant of support for this issue by either the depository or insurance group. The only significant variable is ideology (the U.S. Chamber of Commerce ranking), which is significantly inversely associated with a pro-depository sector vote (coefficient = $-.0101$). This suggests that the more pro-business (conservative) the legislator, the less likely he/she was to vote for allowing banks to enter insurance markets.

B. Estimating Abnormal Portfolio Returns

The information events used in the analysis spanned the period from October 10, 1983 to October 4, 1984, at which time both chairmen, Garn and St Germain,

⁵⁷ See Kroszner and Stratmann (1996) for a theory which supports this notion of long-term strategic contribution behavior.

indicated there would be no new legislation from the 98th Congress.⁵⁸ The events are given in Appendix 2.

Results of the event study, including the coefficients on the dummy variables standing for 1-day (day 0) event windows, and 2-day (days -1 and 0) event windows for these events are given in Table 7, Panels A and B respectively. Note that the bond index factor is significant for banks, thrifts, and insurance firms, but insignificant for brokerages. This is expected given the differences between the product and service composition of the four sectors of the industry. Only the model using the residuals of the pure price (without coupon-reinvestment) index are reported here; results for the other index are very similar.

Events which are significant for banks include the final Senate vote for the 1-day window, and the two Senate actions (breaking the filibuster included), as well as the announcement by Garn and St Germain at the end of the period. The signs of the reactions are as expected, positive for passage in the Senate, negative upon the announcement that the House will not join the Senate in passing new legislation. The commercial bank portfolio gains roughly 1.5% in value, after adjusting for the market and interest rate movements. The thrift portfolio responds in a similar manner,

⁵⁸ Other events which may have an impact on the banking sector, and thus the parameters of the market model, occurred during this time period. Especially significant was the near collapse of Continental Illinois, and the subsequent governmental bailout. Running the model in a switching regression framework, in a later version of the paper, should help to isolate any changes in the risk of the depository institution sector during this estimation period.

positively to passage of the bill in the Senate. However, the thrift portfolio also has a positive announcement on the news that St Germain is drawing up new legislation, and a significant negative reaction to the vote on the Senate Committee write-up of the bill. Thrifts may welcome St Germain's involvement in legislation, given his past support of the sector's interests, but the negative reaction to passage of the committee version of the bill is contradictory to later positive reactions to the actual passage of the bill. The committee version contains thrifts in its definition of depository institutions. Although it is not reported in the table, both banks and thrifts respond significantly and positively when the event window is widened to include all of the days from the end of the filibuster to passage of the bill (9/10/84 - 9/14/84).

The brokerage portfolio does not respond significantly to any of the identified event dates during the legislative session. The only date on which the insurance portfolio responds significantly is the day on which the Senate Committee voted unanimously to report the bill to the floor. The reaction to this event is negative and significant at the 10% level for the one-day event window only. This is unexpected given that the deregulation package reported did not give rights to depository institutions to enter insurance markets; an attempt was made to add that to the package via amendment later on the floor of the Senate, and was defeated. This evidence of impact on non-depository returns is marginal. The non-depository sector does not appear to be as affected by the legislation as the depository sector.

C. Comparing Lobbying Effort with Legislative Rents

By the measures contained in this preliminary analysis, the non-depository sector contributes at least as much as the depository sector, and clearly targets members of important congressional committees. My sample of PACs identified by sponsor contribute roughly equal absolute amounts during this period (depository PACs = \$3,041,518 vs non-depository = \$2,864,872), despite the fact that depository PACs are more numerous (323 vs 60) (see Table 1A). Table 1C contains average per PAC contribution amounts by sector. Bank PACs give on average \$18.69 to individual legislators, and thrifts \$14.02, compared to \$124.86 and \$80.85 for brokerages and insurance PACs respectively. Even though, as suggested above, the strategies of the two sectors appear to vary (depository PACs seek to buy votes, while non-depository PACs also rely on the influence of powerful individual congressmen, the committee chairs), lobbying costs for the two sectors are similar.

Given that both the depository and non-depository sectors lobby extensively during this period, I expect to find significant abnormal returns for each interest group on the passage of this round of deregulation in the Senate. The positive response for the depository portfolios suggests expected cash flows would increase as a result of the legislative activity. Thus I would expect a negative affect for the other side of the market, non-depository firm values, as long as the regulatory action amounted to a zero-sum game between the two sectors. Depository institutions should gain market

share at the expense of existing securities firms and insurance companies. Yet the fact that there is little affect on returns to non-depository portfolios suggests this is not the case. The existence of efficient markets rules out both heterogeneous expectations for expected future profits, or over-reaction to potential profitability increases due to deregulation.

The fact that similar lobbying costs are incurred for seemingly different benefits (rents as measured by abnormal portfolio returns) suggests the connection between lobbying effort and economic returns may not be as strong as previously hypothesized. In order to explore this anomaly further I run a test on just the firms that overlap in my PAC and event study samples. As described above, I regress the product of abnormal returns and market value for individual firms (a measure of the total dollar rents from the legislative event) on contribution amounts by those individual firms to specific groups of legislators. The results are presented in Table 8. Depository firm market value impacts are correlated with contribution amounts consistently for the first three dates studied, 5/11/84, 9/11/84, and 9/14/84. Non-depository sector market value changes are significantly correlated only for the last date studied, 10/4/84, the day on which Garn and St Germain made a joint announcement that there would be no new legislation emerging from the 98th Congress on bank deregulation. I run one set of regressions for the 7 insurance firms in the sample, regressing their market value changes on contributions to opponents of the insurance amendment in the Senate (a

position which supported their interests). Market value changes and contributions to these legislators are correlated for the this last date as well.

V. Conclusion

The statistical patterns of campaign contributions by financial service industry firms and trade associations suggest significant political inputs in the structure of financial markets. Commercial banks and thrifts were more likely on average to contribute more to members of the House Banking Committee, which opposed their interests. At the same time they contributed less than their competitors in the industry to the most important proponent of re-regulation, Representative Fernand St Germain of the House Banking Committee. Interpreting these results involves a high level of speculation. However, the findings suggest depository PACs lobbied for votes in the committee drafting the legislation in the House, where changes were needed to make the legislation similar to the supportive Senate bill. They also suggest that non-depository PACs saw that their best strategy included contributions to Representative St Germain, the powerful chairman of the House Banking Committee. He was in a position to manage the legislative process to prevent new legislation, and maintain the status quo ante, presumably favorable to the non-depository sector.

When I attempt to measure the rents at stake in the legislation, I find that depository portfolio returns also respond positively and significantly to passage of the

deregulatory bill in the Senate, but non-depository portfolios do not experience significant, consistent negative returns from the same bill. This is a somewhat anomalous result given that they donate apparently equal amounts of registered campaign contributions.

If my event study methods are sound, and my samples of firms representative, then there are four different conclusions one can draw from my preliminary calculation of the different rents at stake in the legislation: first, that depository PACs may have been spending more money using other forms of lobbying effort not correlated with registered PAC contributions; second, that there were differential expectations regarding the eventual passage of the legislation, even after the vote on the Senate floor; third, that the market over-estimated the impact of deregulation on expected depository sector profits; or, fourth, that the legislative/regulatory game being played during the 98th Congress was not strictly a zero-sum game between my depository and non-depository sectors samples, and that expected future rents were different for some sectors, or sub-sectors, based on the content of the legislation.

There are in fact many other forms of lobbying activity, including organizing individual contributions, side contracts and gifts, etc.; however, anecdotal evidence suggests the non-depository sectors are just as proficient at these forms as they are consistent in matching depository sector registered campaign contributions during this period. Assuming efficient markets, the second and third conclusions above do not

appear reasonable. Regarding the last conclusion above, no one has proposed any other reason for the persistence of exclusionary regulation other than one based on economic rents.

Therefore, I focus additional attention on a sample of firms which overlaps both my stock price reaction analysis and my lobbying activity analysis. I find that changes in these individual firm market values are correlated with the amount of contributions they made during the 1983-84 election cycle. This finding holds for non-depository firms as well for the last date studied, when it was announced that both the Senate and House was abandoning deregulation for the 98th Congress. My findings suggest that lobbying is a rational strategy that should continue as long as exclusionary rents have not been diminished by organizational and financial innovations. The public choice methodology focusing on influence reveals that financial institutions regulatory policy is subject to significant interest group pressure, as well as personal politics, and is not derived in a neutral, academic policy environment.

APPENDIX 1
List of Regression Variables

WIN8082 - Winning percentage from Legislator's previous election.
ELECYEAR - dummy=1 for running for election in 1984.
SENIORITY - # of years served in the legislature.
CCUS - U.S. Chamber of Commerce business support ideology rating (Index goes from 1, lowest, to 100, highest).
INCUMBANT - dummy=1 if candidate is an incumbent.
OPEN - dummy=1 if candidate for an open seat in 1984.
DEM - dummy=1 if member of the Democratic Party.
HOUSE - dummy=1 if member of House of Representatives.
SENCOMM1 - dummy=1 if member of Senate Banking, Housing, and Urban Affairs Committee.
SENSBCM1 - dummy=1 if member of Securities Sub-committee of Senate Banking Committee.
HSECOMM1 - dummy=1 if member of House Banking, Finance, and Urban Affairs Committee.
HSESBCM1 - dummy=1 if member of Financial Institutions Supervision Sub-committee of House Banking Committee.
HSECOMM2 - dummy=1 if member of House Energy and Commerce Committee.
HSESBCM2 - dummy=1 if member of Telecommunications, Consumer Protection, and Finance Subcommittee of House Energy Committee.
CHAIR - dummy=1 if Chair of any of the above committees or sub-committees.
GARN - dummy=1 for Jake Garn, Republican Senator, Utah.
STGERMAN - dummy=1 for Fernand St Germain, Democratic Representative, Rhode Island.

APPENDIX 2
Cronology of Bank Deregulation Legislative Events, 98th Congress

| Date of DJNR Report ----- | Event Description ----- |
|-------------------------------------|--|
| 11/21/83 | Garn introduces deregulation legislation. |
| 5/11/84 | St Germain announces he is drafting legislation. |
| 5/25/84 | St Germain introduces HR 5732. |
| 6/26/84 | House Banking Committee vote to report. |
| 6/27/84 | Senate Committee vote to report. |
| 9/11/84 | End of Senate filibuster on legislation. |
| 9/14/84 | Results of Senate vote published. |
| 9/21/84 | St Germain "scuttles" all legislation. |
| 10/4/84 | Garn and St Germain announce no new legislation. |

Source: Dow Jones News Retrieval, Wall Street Journal.

Table 1B
POLITICS OF BANK DEREGULATION
Correlation Coefficients for Mean Contributions per Legislator
by Interest Group, 1983-84

| | Commercial | S&Ls and | Brokerages | |
|---------------------------|------------|------------------|------------|--------|
| Insurance | Banks | Savings Banks | | Firms |
| Commercial Banks | 1.000 | .58512 | .58278 | .66792 |
| S&Ls and Savings Banks | | 1.0000 | .61527 | .54478 |
| Brokerages | | | 1.0000 | .71218 |
| Insurance Firms | | | | 1.0000 |

Source: Federal Election Commission, Campaign Expenditure Data, 1983-84 Election Cycle.

Table 1C
POLITICS OF BANK DEREGULATION
Summary Statistics, Selected Variables

| | Mean | Standard Deviation | Maximum |
|---|----------|-----------------------|----------|
| WIN8082 | 59.49441 | 24.20278 | |
| SENIORITY | 8.47486 | 7.54191 | |
| CCUS | 53.98696 | 22.26858 | |
| Mean per Legislator per PAC Contributions by: | | | |
| Commercial Banks | \$18.69 | \$24.28 | \$210.80 |
| S&Ls/Savings Banks | \$14.02 | \$26.95 | \$379.38 |
| Brokerages | \$124.86 | \$264.85 | \$247.00 |
| Insurance Firms | \$80.85 | \$119.27 | \$817.35 |

Source: Federal Election Commission, Campaign Expenditure Data, 1983-84 Election

| Table 1A POLITICS OF BANK DEREGULATION Sample Descriptive Statistics | | | | | | |
|--|-----------|---------------------|-----------------------|---------------------------------|------------------------------|--|
| PAC Category | # of PACs | Total Contributions | Mean PAC Contribution | Maximum Legislator Contribution | Mean Legislator Contribution | |
| Banks | 196 | \$1,238,889 | \$6,321 | \$41,230 | \$2,307 | |
| Bank Associations | 47 | \$1,200,131 | \$25,535 | \$13,850 | \$2,235 | |
| All Bank PACs | 243 | \$2,439,020 | \$10,037 | \$51,230 | \$4,542 | |
| Savings Banks and S&I's | 52 | \$136,136 | \$2,618 | \$12,850 | \$254 | |
| Savings Associations | 28 | \$466,362 | \$16,656 | \$17,500 | \$868 | |
| All Savings PACs | 80 | \$602,498 | \$7,531 | \$30,350 | \$1,122 | |
| Brokerage Firms | 9 | \$654,420 | \$72,713 | \$25,600 | \$1,219 | |
| Broker Associations | 2 | \$83,125 | \$41,563 | \$3,500 | \$155 | |
| All Brokerage PACs | 11 | \$737,545 | \$67,050 | \$27,250 | \$1,374 | |
| Insurance Firms | 36 | \$594,592 | \$16,516 | \$18,000 | \$1,107 | |
| Insurance Associations | 13 | \$1,532,735 | \$117,903 | \$28,800 | \$2,854 | |
| All Insurance PACs | 49 | \$2,127,327 | \$43,415 | \$40,050 | \$3,961 | |
| TOTALS | 383 | \$5,906,390 | \$15,421 | | | |

Source: Federal Election Commission Campaign Expenditure Data, 1983-84 Election Cycle.

Table 2
POLITICS OF BANK DEREGULATION
Mean PAC Contribution Determinants by PAC Category, 1983-84
TOBIT

| Legislator Attributes | Interest Group | | | | | | | | | | | |
|-----------------------|------------------|--------------|-------------------------|--------------|------------|--------------|-----------|--------------|--------------|--------------|--------------|--------------|
| | Commercial Banks | | S&L's and Savings Banks | | Brokerages | | Insurance | | Associations | | Associations | |
| | Firms | Associations | Firms | Associations | Firms | Associations | Firms | Associations | Firms | Associations | Firms | Associations |
| Intercept | -11.662 | -33.0426 | -111.546 | *** | -55.219 | *** | 98.9022 | | -1139.394 | *** | -89.854 | 2.420 |
| WIN8082 | 0.0301 | 0.1882 | 0.0129 | * | 0.301 | * | 0.1362 | | 1.6279 | | 0.0558 | 1.5545 |
| ELECYEAR | 58.392 | 199.9028 | 20.1365 | *** | 130.4025 | *** | 1288.842 | *** | 674.4484 | *** | 251.1721 | 1169.147 |
| SENORITY | -0.0945 | -1.1500 | -1.0589 | ** | -0.594 | | 4.4383 | | -8.2531 | | 1.4231 | -4.9090 |
| CCUS | 0.1482 | 0.015 | 0.9551 | *** | 0.0369 | | -1.4719 | | -1.5226 | | 0.1518 | -2.629 |
| INCUMBANT | 6.4403 | 55.6264 | 18.916 | *** | 64.461 | *** | 96.689 | | 520.235 | | 64.4278 | 91.1902 |
| OPEN SEAT | 9.0828 | 70.3203 | 9.3637 | *** | 52.1211 | *** | 126.1315 | | -13.6079 | | 39.858 | 177.272 |
| DEMOCRAT | .8209 | -21.3601 | 10.688 | ** | -5.5676 | | -244.6654 | *** | 235.569 | *** | -14.9543 | -139.5857 |
| HOUSE | -53.338 | -160.2349 | -9.8387 | *** | -134.0262 | *** | -1357.98 | *** | -846.844 | *** | -220.0276 | -1011.415 |
| SENCOMMI | 19.4742 | 9.9059 | -5.2873 | | 156.4782 | *** | 331.574 | * | 563.756 | | 64.555 | 18.565 |
| SENSBGM1 | 82.725 | 65.8079 | 46.2208 | *** | -119.891 | *** | -280.400 | | -172.068 | | -29.223 | 171.697 |
| HSECOMMI | 77.291 | 95.477 | 52.696 | *** | 89.956 | *** | 243.881 | ** | 444.476 | * | 13.865 | 243.149 |
| HSEBGM1 | -37.425 | -38.406 | -17.990 | ** | 19.753 | | 15.174 | | 20.644 | | -15.508 | -51.126 |
| HSECOMM2 | -.771 | -3.192 | 1.723 | | 16.831 | | 75.448 | | 723.831 | *** | 40.300 | 78.146 |
| HSEBGM2 | 1.037 | -1.512 | -21.544 | | -12.838 | | 74.681 | | 322.292 | | 20.766 | 156.018 |
| CHAIR | -7.043 | -9.480 | -6.953 | | 55.247 | | 1386.033 | *** | 368.039 | | 64.566 | -56.491 |
| GARN | -17.363 | -214.403 | -189.889 | | -222.238 | *** | -3156.897 | | -2943.421 | | -523.060 | -1076.059 |
| STOERMALN | 46.259 | 97.408 | 284.121 | *** | 454.761 | *** | 1240.247 | *** | 747.334 | | 233.053 | 2000.234 |
| Chi-square | -1993.00 | -2400.16 | -805.15 | | -1958.26 | | -2199.35 | | -910.68 | | -1775.10 | -3068.24 |

Source: Federal Election Commission, Campaign Expenditure Data, 1983-1984 Election Cycle

Significance Levels: *** 1%, ** 5%, * 10%.

Table 3
POLITICS OF BANK DEREGULATION
 Mean PAC Contribution Determinants by Interest Group, 1983-84
 TOBIT

| Legislator Attributes | Interest Groups (combined firm and trade association PACs) | | | | | | Insurance Firms |
|-----------------------|--|-------------------------|---------------|--|--|--|-----------------|
| | Commercial Banks | S&I's and Savings Banks | Brokerages | | | | |
| Intercept | -11.415 | -43.949 *** | -98.938 | | | | -15.899 |
| WIN802 | 0.069 | 0.075 | 0.009 | | | | 0.071 |
| ELCYEAR | 84.377 *** | 40.549 *** | 997.297 *** | | | | 457.168 *** |
| SENIORITY | -0.276 * | -0.770 *** | -2.870 | | | | -0.0557 |
| CCUS | 0.0992 | 0.460 *** | -0.996 | | | | -0.293 |
| INCUMBANT | 13.256 ** | 35.157 *** | 102.755 | | | | 64.145 |
| OPEN SEAT | 19.167 *** | 12.588 | 98.968 | | | | 62.299 |
| DEMOCRAT | -1.961 | 1.745 | -168.991 *** | | | | -25.965 |
| HOUSE | -74.139 *** | -43.848 *** | -1097.623 *** | | | | -388.073 *** |
| SENCOMM1 | 18.121 ** | 37.352 ** | 275.059 * | | | | 26.822 |
| SENSBCM1 | 54.253 *** | -27.222 | -251.162 | | | | 45.797 |
| HSECOMM1 | 77.562 *** | 47.265 *** | 203.560 ** | | | | 44.821 |
| HSEBCM1 | -36.370 *** | -0.865 | 16.433 | | | | -16.846 |
| HSECOMM2 | -2.501 | 2.850 | 139.926 | | | | 19.836 |
| HSEBCM2 | 1.367 | -7.905 | 94.136 | | | | 60.625 |
| CHAIR | -3.582 | 25.192 | 1131.014 *** | | | | 4.534 |
| GARN | -23.749 | -88.272 ** | -2698.270 | | | | -507.811 |
| STGERMAIN | 52.240 ** | 316.866 *** | 1157.300 ** | | | | 700.158 *** |
| Chi-square | -2205.83 | -1915.23 | -2247.07 | | | | -2842.57 |

Source: Federal Election Commission, Campaign Expenditure Data, 1983-1984 Election Cycle

Significance Levels: *** 1%, ** 5%, * 10%.

Table 4
POLITICS OF BANK DEREGULATION
Mean PAC Contribution Determinants, 1983-84
Depository and Non-depository Interest Groups
TOBIT

| Legislator Attributes | Coefficients | Standard Errors | |
|---|--------------|-----------------|-----|
| Previous Win Pct. | -0.8309 | 0.5285 | |
| Up for Election | 892.7609 | 32.5392 | *** |
| Seniority | -0.6724 | 0.9725 | |
| CCUS Ranking | -0.4146 | 0.4798 | |
| Incumbent | 186.7464 | 32.9313 | *** |
| Open Seat | 106.2217 | 40.6504 | *** |
| Democrat | -95.2091 | 21.1801 | *** |
| House of Reps. | -815.7216 | 28.4309 | *** |
| Chairman | 565.3942 | 89.3238 | *** |
| Intercepts: | | | |
| Depository | -274.5667 | 52.7332 | *** |
| Non-depository | -104.6544 | 52.5823 | *** |
| Slope Dummies: | | | |
| Depository: | | | |
| Garn | -540.8234 | 231.7877 | ** |
| St Germain | -209.3756 | 220.8303 | |
| Senate Bank. Com. | -8.1255 | 59.6555 | |
| House Bank. Com. | 130.2815 | 31.4542 | *** |
| House Energy Com. | 38.3116 | 33.0926 | |
| Non-depository: | | | |
| Garn | -2208.7864 | 101130000 | |
| St Germain | 1641.5056 | 220.7729 | *** |
| Senate Bank. Com. | 231.4737 | 61.4128 | *** |
| House Bank. Com. | 128.4739 | 31.6653 | *** |
| House Energy Com. | 180.9638 | 33.0691 | *** |
| Log-likelihood = -18121.26; Significance levels ***, **, * = 1%, 5%, and 10% respectively | | | |

Table 5
POLITICS OF BANK DEREGULATION
 Mean PAC Contribution and Vote Determinants, 1983-84
 Depository and Non-depository Interest Groups
 Senate and House Committee Bank Deregulation Votes Combined
 Two-Stage-Least Squares

| Legislator Attributes | Depository PACs | | | Non-depository PACs | | |
|--|-----------------|--------------------|------|---------------------|--------------------|------|
| | Coefficients | Standard Errors | | Coefficients | Standard Errors | |
| Contribution Equation: | | | | | | |
| Intercept | -18.2084 | 19.7971 | | -199.5086 | 106.4762 | * |
| Previous Win Pct. | 0.0413 | 0.1504 | | 0.4994 | 0.8088 | |
| Up for Election | 50.9564 | 5.9287 | **** | 384.4367 | 31.8868 | **** |
| Seniority | -0.5227 | 0.3389 | | -2.9517 | 1.8225 | |
| CCUS Ranking | 0.1223 | 0.1453 | | -0.1804 | 0.7817 | |
| Incumbent | 23.4181 | 20.3744 | | 271.4626 | 109.5813 | ** |
| Open Seat | 63.6037 | 32.2113 | * | 518.3456 | 173.2444 | **** |
| Democrat | -5.7635 | 6.5447 | | -46.7991 | 35.1996 | |
| Senate Bank. Com. | 19.6088 | 9.8978 | ** | 86.5321 | 53.234 | |
| Senate Bank. Subcm. | -10.5993 | 14.6096 | | -46.689 | 78.5758 | |
| House Bank. Com. | 12.6611 | 11.7323 | | -19.4008 | 63.1007 | |
| House Bank. Subcm. | -14.6345 | 8.6968 | * | 9.7008 | 46.7749 | |
| Chairman | 49.1565 | 27.2452 | * | 299.1572 | 146.5349 | ** |
| Garn | -78.2388 | 38.0313 | ** | -444.7926 | 204.5464 | ** |
| St Germain | 91.3709 | 37.8608 | ** | 763.8475 | 203.6293 | **** |
| House of Reps. | -13.1405 | 11.1383 | | -294.7478 | 59.906 | **** |
| Vote Equation: | | | | | | |
| Intercept | 0.07652 | 0.1901 | | 0.1985 | 0.188 | |
| Contributions | 0.0059 | 0.0014 | **** | 0.0001 | 0.0002 | |
| CCUS Ranking | -0.0016 | 0.0024 | | -0.0007 | 0.0024 | |
| Democrat | 0.1471 | 0.1096 | | 0.1483 | 0.1091 | |
| R-square, Vote Equation | 0.1452 | | | 0.0398 | | |
| Significance levels ****, **, * = 1%, 5%, and 10% respectively | | | | | | |

Table 6
POLITICS OF BANK DEREGULATION
Mean PAC Contribution and Vote Determinants, 1983-84
Depository and Insurance Interest Groups
Senate Insurance Amendment Bank Deregulation Vote
Two-Stage-Least Squares

| Legislator Attributes | Depository PACs | | | Insurance PACs | | |
|---|-----------------|--------------------|-----|----------------|--------------------|-----|
| | Coefficients | Standard Errors | | Coefficients | Standard Errors | |
| Contribution Equation: | | | | | | |
| Intercept | 40.5301 | 25.4237 | | 227.0329 | 154.7177 | |
| Previous Win Pct. | 0.0493 | 0.1913 | | 2.1176 | 1.164 | * |
| Up for Election | 51.3169 | 5.1699 | *** | 334.0872 | 31.4617 | *** |
| Seniority | -0.4141 | 0.3397 | | -3.9868 | 2.0672 | * |
| CCUS Ranking | 0.1842 | 0.1442 | | -0.0848 | 0.8773 | |
| Incumbent | -43.6862 | 21.9827 | * | -259.7467 | 133.7768 | * |
| Democrat | 1.2145 | 6.8877 | | -23.444 | 41.9156 | |
| Senate Bank. Com. | 18.7152 | 8.6693 | ** | 31.3567 | 52.7576 | |
| Senate Bank. Subcm. | -9.835 | 12.7714 | | 0.5482 | 77.7213 | |
| Chairman | 52.0341 | 23.8316 | ** | 70.1235 | 145.0285 | |
| Garn | -79.5147 | 33.3614 | ** | -172.7169 | 203.0228 | |
| Vote Equation: | | | | | | |
| Intercept | 1.1596 | 0.2105 | *** | 1.1528 | 0.2098 | *** |
| Contributions | 0.0006 | 0.0018 | | 0.0001 | 0.0003 | |
| CCUS Ranking | -0.0101 | 0.0028 | *** | -0.01 | 0.0027 | *** |
| Democrat | 0.1017 | 0.1263 | | 0.1032 | 0.1253 | |
| R-square, Vote Equation | 0.3075 | | | 0.3103 | | |
| Significance levels ***, **, * = 1%, 5%, and 10% respectively | | | | | | |

Table 7
POLITICS OF BANK DEREGULATION
 Abnormal Returns and Significance Tests
 for Industry Sector Portfolios Around Selected Announcement Dates
 Senate and House Banking Committees Bank Deregulation Bills
 Two-factor Market Model Approach

| Model Variable | Industry Sector | | | |
|--|------------------|------------|------------|-----------------|
| | Commercial Banks | Thrifts | Brokerages | Insurance Firms |
| Panel A: One-Day Event Windows (Day 0) | | | | |
| Intercept | 0.0002 | 0.0003 | -0.0003 | 0.0004 * |
| Standard Errors | (.0003) | (.0007) | (.0006) | (.0002) |
| Value Weighted Market Index | 0.9437 *** | 1.6891 *** | 2.2671 *** | 0.9141 *** |
| Standard Errors | (.0341) | (.0805) | (.0720) | (.0285) |
| Bond Index Residual | 0.214 * | 2.1714 *** | -0.0557 | 0.3774 *** |
| Standard Errors | (.1134) | (.2675) | (.2390) | (.0948) |
| 83/11/21 | -0.0003 | -0.0081 | 0.0002 | -0.0016 |
| Standard Errors | (.0065) | (.0154) | (.01377) | (.0055) |
| 84/5/11 | 0.0031 | 0.0315 ** | -0.0028 | 0.0002 |
| Standard Errors | (.0066) | (.0155) | (.0138) | (.0055) |
| 84/5/25 | 0.0057 | -0.0047 | -0.0159 | 0.0015 |
| Standard Errors | (.0065) | (.0154) | (.0138) | (.0055) |
| 84/6/26 | 0.0017 | -0.0062 | -0.0069 | 0.0071 |
| Standard Errors | (.0065) | (.0154) | (.0138) | (.0055) |
| 84/6/27 | -0.0028 | -0.0289 * | 0.0029 | -0.0096 * |
| Standard Errors | (.0065) | (.0154) | (.0138) | (.0055) |
| 84/9/11 | 0.01 | 0.0242 | 0.002 | -0.0007 |
| Standard Errors | (.0065) | (.0154) | (.0138) | (.0055) |
| 84/9/14 | 0.0142 ** | 0.0345 ** | -0.0084 | 0.0032 |
| Standard Errors | (.0065) | (.0154) | (.0138) | (.0055) |
| 84/9/21 | 0.0018 | -0.0168 | 0.0163 | 0.0008 |
| Standard Errors | (.0065) | (.0155) | (.0138) | (.0055) |
| 84/10/4 | -0.0013 | -0.0153 | 0.0064 | -0.0024 |

| | | | | | | | |
|---|---------|-----|---------|-----|----------|-----|---------|
| Standard Errors | (.0065) | | (.0154) | | (.0138) | | (.0055) |
| R-square | 0.6096 | | 0.512 | | 0.6656 | | 0.6772 |
| Panel B: Two-day Event Windows (Days -1.0) | | | | | | | |
| Intercept | 0.0003 | | 0.0002 | | -0.0004 | | 0.0004 |
| Standard Errors | (.0003) | | (.0007) | | (.0006) | | (.0002) |
| Value Weighted Market Index | 0.9331 | *** | 1.6743 | *** | 2.2627 | *** | 0.9136 |
| Standard Errors | (.0338) | | (.0801) | | (0.0723) | | (.0287) |
| Bond Index Residual | 0.1783 | | 2.1224 | *** | -0.0468 | | 0.3729 |
| Standard Errors | (.1121) | | (.2654) | | (.2395) | | (.0952) |
| 83/11/21 | 0.0021 | | -0.0003 | | 0.0049 | | 0.0004 |
| Standard Errors | (.0046) | | (.0108) | | (.0098) | | (.0039) |
| 84/5/11 | -0.0036 | | 0.0216 | ** | -0.0052 | | 0.0009 |
| Standard Errors | (.0046) | | (.0108) | | (.0098) | | (.0039) |
| 84/5/25 | -0.0064 | | -0.0108 | | -0.0051 | | 0.0027 |
| Standard Errors | (.0046) | | (.0108) | | (.0098) | | (.0039) |
| 84/6/26 | 0.0035 | | -0.0066 | | 0.0005 | | 0.0025 |
| Standard Errors | (.0053) | | (.0125) | | (.0112) | | (.0045) |
| 84/6/27 | -0.0024 | | -0.0145 | | -0.0022 | | -0.0025 |
| Standard Errors | (.0053) | | (.0125) | | (.0113) | | (.0045) |
| 84/9/11 | 0.008 | * | 0.0358 | *** | 0.002 | | -0.0011 |
| Standard Errors | (.0046) | | (.0108) | | (.0098) | | (.0039) |
| 84/9/14 | 0.0145 | *** | 0.0239 | ** | -0.001 | | 0.0024 |
| Standard Errors | (.0046) | | (.0108) | | (.0098) | | (.0039) |
| 84/9/21 | 0.0054 | | -0.0072 | | 0.011 | | 0 |
| Standard Errors | (.0046) | | (.0108) | | (.0098) | | (.0039) |
| 84/10/4 | -0.0077 | * | -0.0078 | | 0.006 | | -0.0012 |
| Standard Errors | (.0046) | | (.0108) | | (.0098) | | (.0039) |
| R-square | 0.6186 | | 0.5206 | | 0.6648 | | 0.6746 |
| Significance Levels: ***, **, * = 1%, 5%, and 10% respectively. | | | | | | | |

Table 8

POLITICS OF BANK DEREGULATION

Regressions of Changes in Firm Market Value on Contribution Levels
for Individual Firms Around Selected Announcement Dates

Senate and House Banking Committees, Bank Deregulation, 1983-84

Coefficients represent dollar increase or decrease in firm market value associated with one dollar in additional contributions.

| Model Event Day | (Dependent Variable = Changes in Firm Market Value on Specified Date) | | | | | | | | | | | |
|-----------------------|---|------------------------------|---|--------------------|------------------------------|--|---|------------------------------|---|--------------------|------------------------------|--------------------|
| | (Independent Variable = Contributions to Specified Legislator Group) | | | | | (Independent Variable = Contributions to Specified Legislator Group) | | | | | | |
| | Depository Firm Contribution Coefficients | | Non-Depository Firm Contribution Coefficients | | Insurance Firms | | Depository Firm Contribution Coefficients | | Non-Depository Firm Contribution Coefficients | | Insurance Firms | |
| | All Legislators | Committee Members Only | Supporters Only | All Legislators | Committee Members Only | Supporters Only | All Legislators | Committee Members Only | Supporters Only | All Legislators | Committee Members Only | Supporters Only |
| 8/15/11 | -579.66 (143.037) | *** -1256.54 (308.515) | *** -1623.53 (360.038) | *** | -297.33 (270.472) | -802.23 (660.364) | -456.7 (431.97) | -1940.88 (2005.838) | | | | |
| Standard Errors | | | | | | | | | | | | |
| 8/19/11 | 440.62 (160.808) | ** 1140.38 (323.102) | 1213.78 (417.750) | *** | 142.25 (118.853) | 463.96 (274.331) | 198.33 (192.735) | 635.6 (894.745) | | | | |
| Standard Errors | | | | | | | | | | | | |
| 8/19/14 | 592.63 (235.104) | ** 1358.89 (499.611) | 1704.46 (603.923) | *** | -238.1 (208.927) | -607.77 (514.83) | -367.77 (333.513) | 427.97 (1296.499) | | | | |
| Standard Errors | | | | | | | | | | | | |
| 8/10/4 | -41.51 (164.258) | -185.21 (353.464) | -88.71 (433.188) | | 337.45 (188.248) | 997.81 (424.54) | 505.25 (305.838) | 2689.71 (1189.77) | * | | | |
| Standard Errors | | | | | | | | | | | | |
| # of Obs. | 26 | 26 | 26 | | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 7 |

Significance Levels: ***, **, * = 1%, 5%, and 10% respectively.

CHAPTER 5: Summary and Conclusion

Our financial institutions, e.g. corporate law, federal regulation of the financial system, and financial asset trading systems, do not emerge as neutral, efficient adaptations, but are influenced and formed by the rent-seeking behavior of the agents we employ in these institutions. The behavior of these agents, seeking to secure market rents (returns in excess of those required to induce market participation) help determine financial market outcomes. My thesis serves to document this behavior for managers and antitakeover regulation, and depository and non-depository firms and the regulation of the financial services industry.

My investigation into managerial political activity suggests: first, that corporate political action committees (PACs) are substantially controlled by managers; second, that there is sufficient anecdotal evidence to support the notion that managers are politically active with respect to their own "class" interests, e.g. antitakeover regulation; third, that the 99th Congress considered an expanded federal role in the regulation of hostile tender offers; fourth, that corporate political activity during this same period is generally associated with levels of managerial exposure to tender offer risk, as measured by inside ownership and possibly firm performance; and, fifth, that corporate PACs which are sponsored by firms considered more "vulnerable" to

takeovers contributed at least as much if not more to legislators serving on the committees in the 99th Congress generating antitakeover legislation. My analysis does not find a "smoking gun," a direct statistical connection between contributions by these "vulnerable" managers and support for this type of legislation. However this finding is unlikely, given the wide range of legislative issues supported by an individual corporate PAC's lobbying effort.

My application of the same analysis to lobbying activity in the financial services sector during the Second Session of the 98th Congress serves to support the hypothesis that repeal of Glass-Steagall exclusionary regulation will occur only when exclusionary rents are eliminated by financial innovation. I find not only that the competing sector PACs lobby in a pattern consistent with the legislative outcome, and that depository sector contributions are statistically correlated with votes for their interests, but also that an individual firm's lobbying levels are directly related to a measure of the rents at stake for the firm in the legislation. I conclude that it is probable that only when the stock market ignores industry regulatory activity related to Glass-Steagall will the Act be dismantled.

In The Calculus of Consent, James Buchanan and Gordon Tullock open by acknowledging that their effort to analyse political decision-making using economic tools is a "fence-row" effort. Any benefits there might be from synthesizing the two fields are potentially reduced by the costs of straying from orthodoxy, either through

lack of focus and rigor, or through the irrelevance of the motivating questions. However, the fields of Public Choice, Law and Economics, Economic History, Experimental Economics, and now a brand new field of Behavioral Finance, all suggest that the framework of most financial research, impersonal, efficient markets, should be broadened to include the political, institutional, historical, cultural and psychological determinants which make financial markets less than perfectly efficient resource allocators.

One interesting implication of my study is that the contractual model of the firm developed by financial economists can add significantly to the debate in the political science and economics literature on the characteristics of corporate political activity. Similarly, public choice methods, sociological studies of power elites and networks, and the concerns with the effects of current campaign finance legal systems can illuminate developments in financial markets and institutions. Jensen (1993) calls for future research in areas historically peripheral to the study of capital markets and corporate finance. One of those areas is "how politics, the press, and public opinion affect the types of governance, financial, and organizational policies which the firm adopts". (P. 872) I believe my research has accomplished this goal.

References

- Becker, G., 1983, A Theory of Competition Among Pressure Groups for Political Influence, Quarterly Journal of Economics, 48, 3, 371-400.
- Binder, J., 1985a, Measuring the Effects of Regulation with Stock Price Data, RAND Journal of Economics, 16, 167-183.
- , 1985b, On the Use of the Multivariate Regression Model in Event Studies, Journal of Accounting Research, 23, 370-383.
- Blaccionere, W., 1991, Market Reactions to Accounting Regulations in the Savings and Loan Industry, Journal of Accounting and Economics, 14, 91-113.
- Bruck, C., 1988, The Predators' Ball: The Junk Bond Raiders and the Man Who Staked Them, Simon and Schuster, New York, New York.
- Buchanan, James M., and Gordon Tullock, 1962, The Calculus of Consent, University of Michigan Press, Toronto, Ontario, Canada.
- Burch, P., 1981, The Business Roundtable: Its Makeup and External Ties, Research in Political Economy, 4, 101-127.
- Burris, V., 1991, Director Interlocks and the Political Behavior of Corporations and Corporate Elites, Social Science Quarterly, 72, 3, 537-551.
- Chappell, H., 1982, Campaign Contributions and Congressional Voting: A

Simultaneous Probit-Tobit Model, Review of Economics and Statistics, 64, p. 77-83.

-----, 1981, Campaign Contributions and Voting on the Cargo Preference Bill: A Comparison of Simultaneous Models, Public Choice, 36, 301-312.

Colburn, C., and S. Hudgins, 1993, The Influence of Congress by the Thrift Industry, Old Dominion University Working Paper.

Comment, R., and G. W. Schwert, 1993, Poison or Placebo? Evidence on the Deterrent and Wealth Effects of Modern Anti-takeover Methods, working paper (University of Rochester).

Congress and the Nation, Vol. VI, 1981-84, Congressional Quarterly Inc., Washington D.C.

Congressional Quarterly Almanac, 1985, Congressional Quarterly Inc., Washington D.C.

Congressional Quarterly Weekly: (Antitakeover Legislation)

August 17, 1985, Congress Eyes Wave of Corporate Takeovers, 1631-1636.

February 1, 1986, Reagan Seeks Relaxation of Federal Antitrust Laws, 187-192.

November 22, 1986, Legislators React Cautiously to Wall Street Stock Scandal, 2932-2933.

Congressional Quarterly Weekly: (Bank Deregulation)

April 20, 1985, Bank Scandals Prompt Review to Reassure Investors, Public, 725-729.

May 5, 1984, Interstate Forays by Big Banks Revive Interest in Legislation, 1025-1025.

September 10, 1983, Financial Industry in Turmoil as Reluctant Congress Stalls on Bank Deregulation Issue, 1899-1909.

February 6, 1982, Liberation of Bank Industry may be Thwarted this Year by Fractured Finance Lobbies, 187-191.

Cooper, K., and D. Fraser, 1986, Banking Deregulation and the New Competition in Financial Services, Ballinger Publishing Company, Cambridge, Mass.

Cornett, M., and H. Tehranian, 1990, An Examination of the Impact of the Garn-St Germain Depository Institutions Act of 1982 on Commercial Banks and Savings and Loans, Journal of Finance, 45, 1, 95-111.

Cotter, J., and M. Zenner, 1994, How Managerial Wealth Affects the Tender Offer Process, Journal of Financial Economics, 35 (1), 63-98.

Dann, L., and H. DeAngelo, 1988, Corporate Financial Policy and Corporate Control, Journal of Financial Economics, 20 (1988), 87-127.

Denis, David, 1994, Organizational Form and the Consequences of Highly Leveraged Transactions: Kroger's Recapitalization and Safeway's LBO, Journal of Financial Economics, 36, 2, 193-224.

- Economides, N., R. G. Hubbard, D. Palia, 1994, The Political Economy of Branching Restrictions and Deposit Insurance: A Model of Monopolistic Competition Among Small and Large Banks, New York University Working Paper, S-94-1.
- Economist, August 6, 1994, The Struggle to Reform America's Banking System, 59-60.
- Edwards, F. 1987, Can Regulatory Reform Prevent the Impending Disaster in Financial Markets?, in Restructuring the Financial System, Symposium sponsored by the Federal Reserve Bank of Kansas City, 1-17.
- Eisenbeis, R., R. Harris, J. Lakonishok, 1984, Benefits of Bank Diversification: The Evidence from Shareholder Returns, Journal of Finance, 39, 3, 881-894.
- Eismeier, T., and P. Pollock, 1988, Business, Money, and the Rise of Corporate PACs in American Elections, Quorum Books, New York.
- Epstein, E., 1969, The Corporation in American Politics, Prentice-Hall, Inc., New Jersey.
- Financial Regulation, Congress and the Nation, Vol. VI, 1981-84, 83-93.
- Flannery, M., and C. James, 1984, The Effect of Interest Rate Changes on the Common Stock Returns of Financial Institutions, Journal of Finance, 39, 4, 1141-1153.
- Graddy, D., R. Kyle, T. Strickland, 1994, The Differential Effects of Deregulation on Savings and Loan Associations and Banks, Journal of Financial Research, 17, 2,

289-300.

Grier, K., and M. Munger, 1991, Committee Assignments, Constituent Preferences, and Campaign Contributions, Economic Inquiry, 29, 24-43.

-----, M. Munger, and B. Roberts, 1994, The Determinants of Industry Political Activity, 1978-1986, American Political Science Review, 88, 4, 911-926.

Grundfest, J., 1990, Subordination of American Capital, Journal of Financial Economics, 27, 89-114.

Guide to U.S. Elections, 1985, Congressional Quarterly Inc., Washington D.C.

Hall, R., and F. Wayman, 1990, Buying Time: Moneyed Interests and the Mobilization of Bias in Congressional Committees, American Political Science Review, 84, 3, 797-820.

Hallock, K., 1994, Executive Pay and Reciprocally Interlocking Boards of Directors, Princeton University Working Paper.

Handler, E., and J. Mulkern, 1982, Business in Politics, Lexington Books, Lexington.

Havrilesky, T., 1990, The Causes and Consequences of Big Bank PAC Contributions, Journal of Financial Services Research, 4, 243-249.

Hermalin, B., and M. Weisbach, 1988, The Determinants of Board Composition, RAND Journal of Economics, 19, 4, 589-606.

Heywood, J., 1988, The Structural Determinants of Corporate Campaign Activity, Quarterly Review of Economics and Business, 28, 1, 39-48.

House Report 98-889, July 12, 1984, Financial Institutions Equity Act of 1984, Serial Set, 98th Congress, 2nd Session.

Humphries, C., 1990, Corporations, PACs, and the Strategic Link Between Contributions and Lobbying Activities, Western Political Quarterly, 353-372.

Jacobson, G., 1980, Money in Congressional Elections, Yale University Press, New Haven.

Jensen, M., 1986, The Takeover Controversy: Analysis and Evidence, working paper (University of Rochester).

-----, 1990, Corporate Control and the Politics of Finance, Journal of Applied Corporate Finance, 13-33.

-----, 1993, The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems, Journal of Finance, 48, 3, 831-880.

Kane, E., 1984, Technological and Regulatory Forces in the Developing Fusion of Financial-services Competition, Journal of Finance, 39,, 3, 759-773.

----, 1985, The Gathering Crisis in Federal Deposit Insurance, MIT Press, Cambridge, Massachusetts.

----, 1987, Commentary on "Eroding Market Imperfections: Implications for Financial Intermediaries, the Payment System, and Regulatory Reform," in Restructuring the Financial System, Symposium sponsored by the Federal Reserve Bank of Kansas City, 55-62.

- , 1989, The S&L Insurance Mess: How Did It Happen?, The Urban Institute Press, Washington, D.C.
- , 1989, Changing Incentives Facing Financial-services Regulators, Journal of Financial Services Research, 2, 3, 265-274.
- , 1994, Financial Reform as Market-constrained Political Process, Boston College Working Paper.
- , 1995, The Increasing Futility of Restricting Bank Participation in Insurance Activities, Boston College Working Paper.
- , and H. Unal, 1988, Change in Market Assessments of Deposit Institution Riskiness, Journal of Financial Services Research, 1, 207-229.
- , 1995, De Jure Interstate Banking: Why Only Now? Boston College Working Paper.
- Karpoff, J., and P. Malatesta, 1989, The Wealth Effects of Second Generation State Takeover Legislation, Journal of Financial Economics, 25, 291-322.
- Kau, J., D. Keenan, P. Rubin, 1982, A General Equilibrium Model of Congressional Voting, Quarterly Journal of Economics, 97, 271-293.
- Kau, J., and P. Rubin, 1985, The Specification of Models of Campaign Finance, Public Choice, 47, 1, 113-119.
- Kole, S., 1994, Measuring Managerial Equity Ownership, A Comparison of Sources of Ownership Data, William E. Simon Graduate School of Business

Administration Working Paper, University of Rochester.

Kroszner, R., and Raghuram G. Rajan, 1995, Is the Glass-Steagall Act Justified? A Study of the U.S. Experience with Universal Banking before 1933, American Economic Review, 84 (4), 810-832.

Kroszner, R., and Thomas Stratmann, 1995, Interest Group Competition and the Organization of Congress: Theory and Evidence from Financial Services Political Action Committees, University of Chicago Working Paper.

Langley, M., February 4, 1986, Congress Becomes Forum for Merger Disputes as Raiders and Targets Alike Seek a Hearing, Wall Street Journal.

Levitan, S., and M. Cooper, 1984, Business Lobbies: The Public Good and the Bottom Line, Johns Hopkins University Press, Baltimore, Maryland.

Machlin, J., H. Choe, J. Miles, 1993, The Effect of Golden Parachutes on Takeover Activity, Journal of Law and Economics, 36 (2), 861-876.

Martin, K., and J. McConnell, 1991, Corporate Performance, Corporate Takeovers, and Management Turnover, Journal of Finance, 46, 671-688.

Matasar, A., 1986, Corporate PACs and Federal Campaign Financing Laws, Quorum Books, New York.

Matsusaka, J., 1993, Takeover Motives during the Conglomerate Merger Wave, RAND Journal of Economics, 24, 3, 357-379.

McCarty, N., and L. Rothenberg, 1993, The Strategic Decisions of Political Action

Committees, working paper (Carnegie Mellon University).

McChesney, F., 1988, Rent Extraction and Rent Creation in the Economic Theory of

Regulation, in The Political Economy of Rent Seeking, eds. Rowley, C., R.

Tollison, and G. Tullock, Kluwer Academic Publishers, Boston, 179-196.

McConnell, J., and H. Servaes, 1990, Additional Evidence on Equity Ownership and

Corporate Value, Journal of Financial Economics, 27, 595-612.

McKeown, T., 1994, The Epidemiology of Corporate PAC Formation, 1975-84,

Journal of Economic Behavior and Organization, 24, 2, 153-168.

Merton, R., 1994, Financial Innovation and the Management and Regulation of

Financial Institutions, Harvard Business School Working Paper, 95-018.

Mikkelson, W., and M. Partch, 1989, Managers' Voting Rights and Corporate

Control, Journal of Financial Economics, 25, 263-290.

Mintz, E., and M. Schwartz, 1985, The Power Structure of American Business,

University of Chicago Press, Chicago.

Mitchell, M., and J. Netter, 1989, Triggering the 1987 Stock Market Crash:

Antitakeover Provisions in the Proposed House Ways and Means Tax Bill?,

Journal of Financial Economics, 24, 37-68.

Mizruchi, M., 1992, The Structure of Corporate Political Action: Interfirm Relations

and their Consequences, Harvard University Press, Cambridge, Massachusetts.

-----, 1989, Similarity of Political Behavior among Large American Corporations,

American Journal of Sociology, 95, 2, 401-424.

Mizruchi, M., and T. Koenig, 1991, Size, Concentration, and Corporate Networks: Determinants of Business Collective Action, Social Science Quarterly, 72, 2, 299-313.

Morck, R., A. Schleifer, and R. Vishny, 1988, Management Ownership and Market Valuation, An Empirical Analysis, Journal of Financial Economics, 20, 293-315.

Morgan, G., 1994, Capture of Federal Banking Regulators Since the New Deal, Virginia Polytechnic Institute and State University Working Paper.

Morton, R., and C. Cameron, 1992, Elections and the Theory of Campaign Contributions: A Survey and Critical Analysis, Economics and Politics, 4, 1, 79-108.

Mueller, Dennis C., 1993, Public Choice II, Cambridge University Press, New York, New York.

Nelson, G., 1993, Committees in the U.S. Congress, 1947-1992, Congressional Quarterly Inc., Washington D.C.

Olson, M., Jr., 1965, The Logic of Collective Action, Harvard University Press, Cambridge, Massachusetts.

Palepu, K, 1986, Predicting Takeover Targets: A Methodological and Empirical Analysis, Journal of Accounting and Economics, 8, 3-35.

- Peltzman, S., 1976, Toward a More General Theory of Regulations, Journal of Law and Economics, 19, 211-241.
- Pennings, J., 1980, Interlocking Directorates, Jossey-Brass, San Francisco, California.
- Pittman, R., 1976, The Effects of Industry Concentration and Regulation on Contributions in Three U.S. Senate Campaigns, Public Choice, 27 (Fall), 71-80.
- , 1977, Market Structure and Campaign Contributions, Public Choice, 31 (Fall), 37-52.
- , 1985, Market Structure and Campaign Contributions: Does Concentration Matter?, U.S. Department of Justice, Antitrust Division, Economic Policy Office Discussion Paper 85-11.
- , 1988, Rent-seeking and Market Structure: Comment, Public Choice, 58, 173-185.
- Poole, K., and T. Romer, 1985, Patterns of Political Action Committee Contributions to the 1980 Campaigns for the U.S. House of Representatives, Public Choice, 47, 63-111.
- Posner, R., 1974, Theories of Economic Regulation, The Bell Journal of Economics and Management Science, 5, 335-358.
- Pound, J., 1992, Raiders, Targets, and Politics: The History and Future of American Corporate Control, Journal of Applied Corporate Finance, Winter, 6-18.

- , 1992, Beyond Takeovers: Politics Comes to Corporate Control, Harvard Business Review, March-April, 83-93.
- Regens, J., E. Elliott, and R. Gaddie, 1991, Regulatory Costs, Committee Jurisdictions, and Corporate PAC Contributions, Social Science Quarterly, 72, 4, 751-760.
- Roe, M., Political and Legal Restraints on Ownership and Control of Public Companies, Journal of Financial Economics, 27, 7-41.
- , 1993, Takeover Politics, in The Deal Decade: What Takeovers and Leveraged Buyouts Mean for Corporate Governance, Brookings Institute, Washington, D.C., 321-380.
- , 1994, Strong Managers, Weak Owners: The Political Roots of American Corporate Finance, Princeton University Press, Princeton, New Jersey.
- Romano, R., 1987, The Political Economy of Takeover Statutes, Virginia Law Review, 73 (1), 111-199.
- , 1993, Rethinking Takeover Regulation, Journal of Applied Corporate Finance, Winter, 1993, 47-57.
- Romer, T., and B. Weingast, 1991, Political Foundations of the Thrift Debacle, in Alesina, A., and G. Carliner ed., Politics and Economics in the Eighties, University of Chicago Press, Chicago, Illinois.
- Ryngaert, M., and J. Netter, 1988, Shareholder Wealth Effects of the Ohio

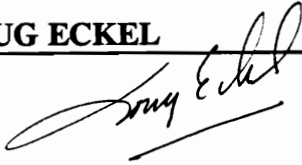
- Antitakeover Law, Journal of Law, Economics, and Organizations, 4, 2, 373-383.
- Sabato, L., 1984, PAC Power: Inside the World of Political Action Committees, Norton & Company, New York.
- Schipper, K., and R. Thompson, 1983, The Impact of Merger-related Regulations on the Shareholders of Acquiring Firms, Journal of Accounting Research, 21, 184-221.
- Schwert, G., 1981, Using Financial Data to Measure the Effects of Regulation, Journal of Law and Economics, 25, 121-145.
- Senate Report 98-560, June 29, 1984, The Financial Services Competitive Equity Act, Serial Set, 98th Congress, 2nd Session.
- Senate Report 99-90, June 24, 1985, International Air Transportation Act of 1985, 99th Congress, 1st Session.
- Sharp, J., 1988, Directory of Congressional Voting Scores and Interest Group Ratings, Facts-on-File Publications, New York.
- Silberman, J., and G. Durden, 1976, Determining Legislative Preferences on the Minimum Wage: An Economic Approach, Journal of Political Economy, 84, 317-329.
- Smart, S., and S. Smart, 1993, Political and Economic Determinants of Second Generation State Takeover Laws, working paper (Indiana University).

- Snyder, J., 1990, Campaign Contributions as Investments: The U.S. House of Representatives, 1980-1986, Journal of Political Economy, 98, 6, 1195-1227.
- Song, M.m and R. Walkling, 1993, The Impact of Managerial Ownership on Acquisition Attempts and Target Shareholder Wealth, Journal of Financial and Quantitative Analysis, 28 (4), 439-457.
- Stigler, G., 1971, The Theory of Economic Regulation, The Bell Journal of Economics and Management Science, 2, 1, 3-21.
- _____, 1974, Free-riders and Collective Action: An Appendix to Theories of Economic Regulation, Bell Journal of Economics, 5, 359-365.
- Stratman, T., 1992, What Do Campaign Contributions Buy? Deciphering Causal Effects of Money and Votes, Southern Economic Journal, 57, 3, 606-620.
- Szewczyk, S., and G. Tsetsekos, 1992, State Intervention in the Market for Corporate Control, Journal of Financial Economics, 31, 3-23.
- Tullock, G., 1988, Rents and Rent Seeking, in The Political Economy of Rent Seeking, eds. Rowley, C., R. Tollison, G. Tullock, Kluwer Academic Publishers, Boston, 51-64.
- Wall Street Journal, September 9, 1985, Group to Weigh Formation of Antitakeover Coalition.
- Welch, W., 1981, Money and Votes: A Simultaneous Equation Model, Public Choice, 36, 3, 209-234.

White, L., 1991, The S&L Debacle: Public Policy Lessons for Bank and Thrift Regulation, Oxford University Press, New York, New York.

Wilhite, A., and C. Paul, 1989, Corporate Campaign Contributions and Legislative Voting, Quarterly Review of Economics and Business, 29, 3, 73-85.

Zardkoohi, A., 1988, Market Structure and Campaign Contributions: Does Concentration Matter? A Reply, Public Choice, 58, 2, 187.



EDUCATION

PHD CANDIDATE, FINANCE; Virginia Polytechnic Institute and State University;
Dissertation: Two Essays on Political Influence and the Regulation of Financial
Markets; Completion, May, 1996.

MASTER of BUSINESS ADMINISTRATION; Radford University; December, 1987.
(Coursework for MBA partially completed at the University of British Columbia
and Virginia Tech.)

MASTER of URBAN PLANNING; University of Virginia, May, 1978.

BACHELOR of ARTS, with honors; University of Virginia, January, 1976.

HIGH SCHOOL; Groton School, Groton, Massachusetts, 1971.

CURRENT RESEARCH

Eckel, C., D. Eckel, and V. Singal, "Privatization and Competition: The Intra-Industry
Effects of the Sale of British Airways and Air Canada", Working Paper,
Virginia Polytechnic Institute and State University, August, 1995, (Revised for
3rd submission to Journal of Financial Economics, January, 1996).

Eckel, D., "Do Managers Purchase Corporate Control Legislation? Campaign Money
and Antitakeover Legislation in the 99th Congress", Working Paper, Virginia
Polytechnic Institute and State University, September, 1995.

Eckel, D., "The Politics of Bank Deregulation: Campaign Money, Exclusionary Rents,
and the Garn-St Germain Standoff, 1983-84", Working Paper, Virginia
Polytechnic Institute and State University, January, 1995.

WORK EXPERIENCE

INSTRUCTOR, Department of Economics, Hollins College, Roanoke, Virginia, 1995-
96 Academic Year.

VISITING RESEARCH SCHOLAR, Department of Finance, University of Arizona, Tucson, 1994-1995 Academic Year.

GRADUATE TEACHING ASSISTANT, Department of Finance, Virginia Tech, Blacksburg, Virginia; Fall, 1990 - Summer, 1994.

INSTRUCTOR, Department of Management and Business Technology, New River Community College, Dublin, Virginia; responsible for preparation and teaching of Principles of Management course, Spring, 1991.

ECONOMIC DEVELOPMENT COORDINATOR, Town of Blacksburg, Virginia; duties included: management of all economic development-related activities for the Town; retail recruitment; business relations; management and development of the Blacksburg Industrial Park; computerization of all economic development prospect and contact files; small business development; and tourism development. Sept. 1987 - Sept. 1990.

ECONOMIC DEVELOPMENT SPECIALIST, Office of Economic Development, City of Roanoke, Virginia; duties included: capital planning for industrial land development; capital budget impact analysis; industrial recruitment; negotiations with potential new industry; project management for industrial development on publically-owned land; development of promotional materials; computerization of all office files on available land, prospects; miscellaneous supporting analyses (market studies, fiscal impact, economic impact, financial feasibility). September, 1984 - September, 1987.

ECONOMIC DEVELOPMENT SPECIALIST, New River Valley Planning District Commission, Radford, Virginia; duties included: administration of the Small Business Administration 503 Capital Loan Program; development of a grant for the position of Regional Small Business Coordinator; assistance to district governments in economic development. November, 1983 - September, 1984.

SENIOR ANALYST, Urbanics Consultants, Vancouver, British Columbia; duties included: market feasibility and locational studies for major development companies for industrial, commercial office and retail, and large-scale residential projects. February, 1981 - January, 1983.

SENIOR PLANNER, Albemarle County, Charlottesville, Virginia. May, 1979 - November, 1980.

CONFERENCES AND PRESENTATIONS

"Do Managers Purchase Corporate Control Regulation? Campaign Money and Antitakeover Legislation in the 99th Congress."

Martin School of Public Policy Seminar Workshop, University of Kentucky, February, 1995;

Department of Finance Seminar Workshop, University of Arizona, Tucson, Arizona, February, 1995;

Financial Management Association Annual Conference, St. Louis, October, 1994; and,

Public Choice Society Annual Meetings, Austin, May, 1994.

"Privatization and Competition: The Intra-Industry Effects of the Sale of British Airways and Air Canada", (with C. Eckel, and V. Singal).

Financial Management Association Annual Conference, New York, October, 1995;

Department of Finance Seminar, University of Arizona, Tucson, October, 1994; and,

Learned Societies Conference, Ottawa, Canada, June, 1993.

"The Politics of Bank Deregulation: Campaign Money, Exclusionary Rents, and the Garn-St Germain Standoff, 1983-84

Financial Management Association Annual Conference, New York, October, 1995;

Forthcoming:

Public Choice Society Annual Meetings, Houston, April, 1996.

Bank Structure Conference, Chicago FED, Chicago, May, 1996.

TEACHING EXPERIENCE

FINANCIAL MANAGEMENT - Hollins College, Roanoke, Virginia; Text: Brealey and Myers, Principles of Corporate Finance, 4th Edition; Review of Basic Financial Math, Intermediate Asset Pricing Topics; Overall Average Student Rating of Instructor: 4.56 out of 5.00; Fall, 1995.

INVESTMENTS I - Virginia Polytechnic Institute and State University; Introductory Investments Course; Text - Kolb, Investments, 4th Edition, Overall Average Student Rating of Instructor: 4.33 out of 5.00; Summer Session, 1995.

ADVANCED FINANCIAL MANAGEMENT - Virginia Polytechnic Institute and State University; Senior Case Study, Financial Policy Course; Text - Harrington and Eades, Case Studies in Financial Management; Overall Average Student Rating of Instructor: 4.00 out of 5.00; Summer Session, 1994.

INTERMEDIATE FINANCIAL MANAGEMENT - Virginia Polytechnic Institute and State University; Review of Basic Financial Math, Intermediate Asset Pricing Topics; Text: Brealey and Myers, Principles of Corporate Finance, 4th Edition; Overall Average Student Rating of Instructor: 4.43 out of 5.00; Summer Session, 1993.

PRINCIPLES OF MACROECONOMICS - Hollins College, Roanoke, Virginia, Fall, 1995.

PRINCIPLES OF MICROECONOMICS - Hollins College, Roanoke, Virginia, Spring, 1996.

SENIOR BUSINESS SEMINAR - Hollins College, Roanoke, Virginia, Spring, 1996.

PRINCIPLES OF MANAGEMENT, New River Community College, Dublin, Virginia, 1991.

SEMINAR SERIES ON COMPREHENSIVE BUSINESS PLANNING, organized while working as Economic Development Coordinator for the Town of Blacksburg, Virginia, 1990 - 1991.