Stock ownership US Congress influenced voting on bailout

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(PhysOrg.com) -- Personal investments in the stock of financial institutions by members of the House of Representatives and the Senate of the Unites States was positively associated with these institutions receiving bailout after the subprime mortgage crisis of 2007.

Stock ownership in the financial sector by politicians increased the probability that banks received bailout money, how much support these institutions received and how quickly.

Professor Laurence van Lent of Tilburg University in the Netherlands and Ahmed Tahoun of Manchester Business School (UK) drew these conclusions on the basis of an analysis of 555 publicly listed financial sector firms, 295 of which received government support under the Troubled Asset Relief Program (TARP).

Lobbying is indubitably an important means of exerting influence in politics. In the United States, campaign donations also matter. What has gone virtually unnoticed thus far though is that politicians also are investors. Part of their wealth rests with firms whose wellbeing falls under their legislative and regulatory influence.

Professor of Business Laurence van Lent and his colleague Ahmed Tahoun have now systematically shown for the first time that equity ownership of politicians plays a significant role in their legislative and oversight activities. In particular, stock ownership was associated with members of the House of Representatives voting in favor of the H.R.

3997 bill on September 29th and H.R. 1424 on October 3rd, 2008 to bailout the financial sector. In the initial vote, the predicted probability of voting for the bailout proposals is 41 percent for non-investors and 58 percent for equity owners. In the final vote, the predicted probabilities are 55 and 69 percent respectively.

Congressional equity ownership in a given firm was also shown to affect the probability of receiving a bailout, the bailout amount and the timing of government support to that firm. Due to their oversight of the Treasury's implementation of TARP policy, congressional committees with jurisdiction over the finance sector can potentially affect regulatory outcomes. The researchers show that the equity ownership of members of these congressional committees is indeed associated with bailout decisions. It turns out that this effect can be attributed largely to the powerful members in each committee, i.e., the chairs and ranking members.

More information: The working paper about this study can be downloaded from the Social Science Research Network at papers.ssrn.com/sol3/papers.cf … ?abstract_id=1570219

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