THE POLITICAL ECONOMY OF TARP BANK BAILOUTS

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By

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ABSTRACT

This paper will investigate if there is a relationship between Troubled Asset Relief Program (TARP) funds allocated to banks, and the amount of campaign contributions those banks gave to congressmen. There already exists research on campaign contributions and its effects on increasing the probability of voting for a bailout, and there is research that there is a relationship between contributions to politicians and the amount subprime mortgages in each congressional district. In order to control for popular/electoral pressure, I include several socio-economic and financial variables. In addition, this paper will look at the outcome of these contributions and will study if the banks' contributions lead to a significant increase in probability of receiving bailout funds. I use a logit model with the primary independent variable as the proportion of campaign contributions to each congressman that was from the finance industry. The model will control for income growth, non performing assets, population, political party, inflation, median household income, a congressman not returning to office, and the importance of the financial sector in each congressional district. My findings indicate that campaign contributions and ideology have shaped voting incentives of Congressmen concerning the TARP fund while economic factors only mattered in the second house vote. Congressmen that have a higher percentage of their campaign contributions from finance are more likely to vote for TARP, and Republicans are less likely to vote for TARP. Magnitudes for these two
variables decrease in the second house vote, and income growth is the only economic factor that is significant.
# Table Of Contents

Introduction ...................................................................................................................... 1  
Background ...................................................................................................................... 3  
Political Economy of Bail-out and Crisis Resolution ...................................................... 5  
Conceptual Model ............................................................................................................ 9  
Data Description ............................................................................................................ 11  
Summary Statistics ......................................................................................................... 14  
Regression Results .......................................................................................................... 16  
Conclusion ....................................................................................................................... 21  
Appendix A .................................................................................................................... 25  
Bibliography .................................................................................................................. 27
LIST OF ILLUSTRATIONS

Vote Composition Graph......................................................................................................................................................... 16
LIST OF TABLES

Table 1: Summary Statistics on Variables................................................................. 14

Table 2: Correlation Table for First Vote and Second Vote on TARP Bill.......... 15

Table 3: Regression Table....................................................................................... 20
Introduction

The 2007 financial crisis almost caused another depression to occur in the United States. Firms that were mainstays of Wall Street were in danger of going bankrupt or were bankrupt. Banks were failing, and there was a fear of bank runs. Lending had slowed significantly. The crisis had become a credit crunch.

The Federal Reserve and the Treasury Department took steps that in their opinion to stabilized the financial system. The Federal Funds Rate was lowered, and corporate buyouts were organized in an attempt to save the bankrupt firms. These measures were not enough. On date, the US Congress passed a bill that gave the Treasury Department seven hundred billion dollars to stabilize the financial system. Armed with these funds, the Treasury Department allocated money to a number of banks in order to prevent their failure.

In the political economy literature, it is generally suspected that politicians and governments do not necessarily act in the best interest of the public. It is likely that interest groups and electoral concerns might have played a decisive role during the congressional vote on the TARP fund. During a crisis and with seven hundred billion US taxpayer dollars at stake, this raises the question whether these the funds were allocated reasonably and whether congressional representatives with a higher percentage of their campaign finance from the finance sector were more likely to vote for bank bailouts?

Research done by Mian (2010) shows that the financial sector attempted to influence politicians in congressional districts that had high levels of mortgages. There was a calculated decision before the TARP vote to sway politicians' minds about the financial industry. Current research would also expect that campaign contributions would be less than the payout, and this
was documented under the Byrd trade amendment as contributions and payouts was not a one to one ratio (Reynolds and Liebman 2004). This means that banks that received bailout money experienced a positive return for the money they spent on contributions.

My work is also related to Dorsch (2010) who tried to determine whether if campaign contributions affected Congressional representatives' votes on TARP. He found that they indeed were more likely to vote for TARP if they had received contributions from the financial sector. However, Dorsch's models had few variables and did not control for economic variables in the congressmen's districts. In addition, he only modeled the successful TARP vote while neglecting the first failed TARP vote. The literature on TARP leaves open the question of whether economic factors may have affected congressmen's voting behaviors and whether there has been a significant difference in the magnitude of these factors the first and second congressional vote on TARP.

This paper will study if the financial industry influenced the votes for the failed and successful TARP votes. Campaign contributions to Congressmen will act as a proxy for the influence exerted by the industry. In addition to earlier contributions, this paper will also look into how income growth, median household income, regional inflation, the number of non-performing assets, population, political party, end of political career, and financial employment in each US congressional district affected the allocation of funds by the Treasury.

With these variables included, the results show that campaign contributions and political partisanship were significant factors in both votes. Republicans were less likely to vote for TARP, and politicians that had a higher percentage of their campaign contributions from the financial industry were more likely to vote for TARP. However, the magnitude of these two
variables are smaller in the second vote compared to the first vote. In the second vote, income growth becomes significant. This demonstrates that political forces were less important and economic factors played a role in the successful TARP vote.

**Background**

In February 2007, Freddie Mac stopped purchasing subprime mortgages, and the stock market went into a panic when Lehman Brothers filed for bankruptcy. As time drew on, there was a growing fear of financial collapse. In September 2008, Secretary Paulson went to the Senate Banking Committee with a plan that, in his opinion, would save the financial sector from collapse. The plan would give the Treasury wide powers to purchase assets at the department's discretion without being subject to congressional or judicial review. This original plan was rejected by the Senate Banking Committee and so was redesigned.

However, there has been substantial concern whether funds of the Troubled Asset Relief Program or TARP money has been used wisely and whether the government overpaid for mortgage backed securities? The banks were unwilling to sell the securities at the market value at that time. They were reluctant to take the loss and the accompanying asset write downs. This raises the question, whether other factors were involved when TARP passed one month away from the national election, congressional elections, and senatorial elections? Did the financial sector influence the allocation of TARP funds? As these are important and relevant questions, this paper will specifically investigate if campaign contributions from the finance sector affected how congressmen voted for TARP.

TARP was designed to save the financial system and to bring liquidity to the financial markets. There were no procedures in place to deal with the problem. The Federal Reserve and
the Treasury Department were using the tools available to them to deal with the problem. The federal funds rate was lowered, and the Treasury Department pressured firms to purchase Lehman Brothers and Merrill Lynch as attempts to prevent their bankruptcy. Bank of America was promised loans if it would take over Merrill Lynch. However, to do more, the Treasury Department required money that it did not have or the authority to request. As a result, Henry Paulson, head of the Treasury department, and Ben Bernanke, Chairman of the Federal Reserve, went to Congress to request seven hundred billion dollars to address the financial crisis. The Treasury Department wanted the money to buy mortgage backed securities. During that time, banks that held these securities stood to lose billions and some were already going bankrupt like Washington Mutual. Thus, the Treasury Department wanted to get these toxic assets off the balance sheets of the banks.

There was also a fear of the credit market freezing up because banks were afraid to lend with mortgage backed securities on their balance sheets. This was because no one knew what the securities were worth. The Treasury Department hoped that by purchasing toxic assets this would reduce the risk of a credit freeze. The TARP fund would later be used through the Capital Purchase Program to buy preferred stocks in banks to improve lending and to act as a capital buffer for future shocks. The TARP fund would go on to give seventy billion dollars to AIG because the company had insured the mortgage securities and did not have enough capital to cover the losses. Just as TARP helped ensure the viability of some in the insurance industry, both the Auto Supplier Support Program and the Automotive Industry Financing Program were also created from TARP to assist both General Motors and Chrysler.
The Emergency Economic Stabilization Act of 2008, H.R. 3997, did not pass through the House of Representatives with 228 votes against and 205 votes for in late September 2008. The majority of Democrats voted for the bill while a majority of Republicans voted against the bill. The stock market dropped 777 points in response to the news. Republicans placed the blame on Nancy Pelosi, House Speaker and Democrat. They felt her comments at a press conference before the vote appeared partisan and attacked the Republicans which made them less inclined to cooperate with the Democrats. Research has shown that politicians engage in partisan actions and rhetoric in order to reduce voter accountability by causing the voters to focus on partisan politics (Kiss 2008). This may explain the fact that most congressmen voted along party lines for H.R. 3997. Soon after, another bill, H.R. 1424, was introduced. The new bill included an increase in the threshold for the alternative minimum tax, extended environmental tax credits, and other tax credits and tax reforms. The bill passed on October 3, 2008 with 263 votes for and 171 votes against the program (Wurtz 2010).

**Political Economy of Bail-out and Crisis Resolution**

Sometimes to aid the financial industry and solve a financial crisis there will have to be a bailout. The bailout is paid for through taxes or the taking on of additional debt. In addition during a financial crisis, countries with systems in place to aid failing banks, such as deposit insurance, will end up bailing out those bankrupt banks through those systems with tax money, and those systems, while aiding so many banks, will likely go bankrupt during a crisis. In order to stop that from happening, politicians enacted reforms to entice healthy banks to buy failing banks (Kroszner and Strahan 1996).
Financial reforms, regulations, and interventions are other solutions to a financial crisis, and they often occur during financial crisis (Caprio and Klingebiel 1996). This is because during a crisis power structures are changed since different groups will be affected differently, so new coalitions may be formed to push through reform that would not have been blocked before the crisis (Hubbard et al. 1996). Also, the costs of financial reform or intervention appear more acceptable if the result of inaction is the collapse of the financial sector (Kroszner and Strahan 1996), and the costs of reforms or interventions are passed onto the taxpayer. This cost causes the public to demand reform because they see there is a problem with the current system (Kane 1996). This can be seen in the United States with the passage of a financial reform bill in 2010 that created government oversight on derivatives and gave shareholders greater say on how executives were compensated. Politics often factor heavily into dealing with financial crisis. For example, during the Korean financial crisis, a coherent and timely response was delayed due to politicians’ concerns with their re-election. Financial reforms were not passed through the legislative body until after the election (Haggard and Mo 2000). TARP passed when tax credits and reforms were included.

In the area of financial reform, there are five ways of analyzing why financial reforms occur. The first approach is public interest where reforms are enacted to correct market failures or any inefficiencies for the greater public good. The second approach is where private interest groups use their influence and resources to create rent for themselves by lobbying for regulations and reforms that aid the financial sector (Becker 1983). The third approach is to look at ideology as the beliefs of the politicians and voters will affect the likelihood and magnitude of any intervention in the financial industry. As a country moves towards liberal economic views, there
will be more deregulation and less government intervention. This is because the country's beliefs are geared towards free market principles (Poole and Rosenthal 1997). The fourth approach is to look at how institutions influence the policy process. For example, how would a parliamentary system differ with a presidential system in dealing with financial interventions? In a parliamentary system, there are less points of access to politicians compared with a presidential system. This difference would increase the difficulty of lobbying for rent-seeking changes in finance (Irwin and Kroszner 1999). The fifth approach is to look at how financial reforms or interventions affect the power of the government. Governments often desire to increase their reach and power and imposing methods of control on the financial industry increases the government's power (Brennan and Buchanan 1977).

The most commonly used approach to describe the actions of politicians is private interest. The behavior used by banks to get advantages or monetary benefits is called rent-seeking and falls under private interest. Rent-seeking behavior is not socially optimal. The behavior bypasses the competition of the free-market where every firm follows the same rules. Instead of adapting to market conditions, firms lobby the government to receive extra benefits or profits by manipulating reforms or legislation. However, there exists the Tullock paradox. Firms under spend in their lobbying efforts compared to the benefits they would receive. Theory would expect a firm to spend resources until lobby costs equaled benefits received. This discrepancy can be partially explained through in-direct lobbying like radio and television ads in cities which are not counted as costs (Sobel and Garrett 2002) and a strong message will increase the likelihood of success (Boring and EDOCIF 2009). Banks maybe free riding on the lobbying efforts of other banks which might explain the suboptimal level of lobbying. Free riding was
seen with farmers in Europe. Farmers gained the benefits from the rent-seeking behavior of other agricultural organizations without spending money on lobbying (Furtan, Jensen et al. 2008).

There has been research on rent-seeking behavior and its effect on the design and execution of US legislation. It was Barro (1973) that first took a look at politicians as agents that have an incentive to elicit monetary favors from special interest in exchange for legislation favorable to those special interest groups, and re-election help by placing some checks on politicians' desires to elicit contributions by offering a challenger. Re-election leads to the incumbent balancing his or her decisions to aid special interest and to win the support of his or her voters.

Legislators who have a clear position on policies receive higher amounts of contributions from Political Action Committees (PAC) because contributors are more certain those legislators will vote according to the contributors' interests (Kroszner and Stratmann 2000). Politicians were more likely to vote for bills that helped defaulting home-owners if their constituents were also defaulting (Mian, Sufi et al. 2009). In addition, firms that have political connections are more likely to receive bailouts (Faccio, Masulis et al. 2006). In order to influence the political process, banks resort to employing lobbyists and making campaign contributions, and this makes the financial system not politically independent (Kroszner 1999). In addition, research has shown that there is a relationship between campaign contributions and the potential payoff from duties collected from tariffs on imports to different firms (Reynolds and Liebman 2004). With the Byrd Amendment on trade tariffs, Reynolds and Liebman (2004) showed that companies that were likely to receive larger pay outs contributed more money, but there was not a one to one ratio in contributions and pay out. Also, there has been research on campaign contributions and the
passage of duty suspension programs (Gokcekus and Barth 2007). The findings from the research showed that contributions increased the likelihood of a duty suspension program passing. These two works can be used to analyze how much of a return firms received for each dollar of contribution. However, this research deals with trade issues, and there is little empirical work on the return for each dollar of contribution for banks that received TARP funds.

This paper explores further on the work done by Michael Dorsch (2010). He used a static probit model to examine if contributions from the financial sector affected how a congressman voted. Also, the mortgage industry focused their contributions to Congressmen that had large numbers of subprime borrowers (Mian, Sufi et al. 2010). This paper will explore empirically how a representative's probability of voting for TARP was affected by campaign contributions and how much each bank received in bailouts and the rate of return. Compared with the model used by Dorsch, this model will control for non-performing assets (NPA), income growth, median household income, population, political party, end of political career, inflation, and the importance of the financial sector in each congressional district. With these additional control variables, the model should give a more representative picture of the magnitude and significance of the factors that influenced congressmen's votes.

Conceptual Model

Conceptually, the model will be a logit model based on the work done by Besley (2006) on moral hazard in government and Dorsch's (2010) model on politicians' voting behavior on TARP. In both models, politicians are driven by self-interested reasons. The politician has to make a decision between the benefit of appeasing special interest and its accompanying campaign contributions and the costs of possibly alienating voters with his or her actions.
controlling for inflation, population, political party, not returning to congress, income growth, median household income, employment, and non-performing assets, the model will be a logit regression of this equation.

\[ \text{Pr(vote)} = a + B_1 \ln(\text{finprop}) + B_2 \ln(\text{Employment}) + B_3 \ln(\text{Median Household Income}) + B_4 \ln(\text{Income Growth}) + B_5 \ln(\text{inflation}) + B_6 (\text{Republican}) + B_7 (\text{Non-performing assets}) + B_8 (\text{population}) + B_9 (\text{NotRelected}) + \text{error} \]

Finprop is the percentage of campaign contributions from the finance sector. Financial industry contributions will be the amount of money given by any financial firm such as an insurance company or a bank to each representatives of congress. Median household income, income growth, inflation, employment, population, political party, not returning to congress, and non-performing assets will be controlled for each congressional district.

The coefficient for finprop will likely be positive as a higher percentage of contributions from financial firms should mean more influence on Congressional representatives and that should mean a greater likelihood for bailout funds. Republicans should be less likely to vote for TARP. This is because the Republican party is in favor of deregulation and not intervening in the free market (Kroszner 1999) and a 700 billion dollar bailout would be a massive government intervention. In addition, a congressman that is not returning to Congress after the 2008 election will be less concerned with voter reactions since they no longer worry about re-election. This means that the congressman should have more freedom to vote as he or she pleases. This should have a positive effect on the probability of voting for TARP. Median household income's effect should be positive as it is probable that the bailouts of banks will most likely benefit people with higher incomes since they either work for a financial company or have some financial stake in
the industry. In addition, they may be better able to accommodate the costs of the bailouts. Also, income growth probably has a negative effect on bank bailouts since the constituents of a congressional district that is experiencing positive income growth will not feel the economy requires a bailout.

The coefficient for inflation should be positive as high inflation would increase prices and make people poorer which would make them inclined to believe the government needs to intervene. Employment and non-performing assets should both have positive effects on the possibility of bailouts. This is because the negative effects of a financial collapse on a congressional district reliant on employment from the financial sector would be large. This would push a congressman to increase funds allocated to banks in his or her district. With non-performing assets, the same argument applies. Banks that have a large amount of non-performing assets would have a higher chance of failing compared with banks with smaller amounts of NPAs. This means that representatives from states with those higher risk banks would be inclined to support government intervention and would want funds to go to their states. Congressional districts with larger populations will have representatives less inclined to vote for TARP because the effects of the financial crisis should on average be lower. In addition, there should be a greater variety of opinions on TARP with districts that have large populations which makes reaching a consensus on what to do more difficult.

**Data Description**

The data used in this model was gathered from multiple organizations. The campaign contribution data is freely available to the public from the Center for Responsive Politics and can be downloaded from the website opensecrets.org. The campaign finance data contains
information on contributions from individuals and political action committees to candidates. There were over three million individual donors and over three hundred thousand political action committee donations in the 2008 election cycle. Since the focus of this paper is on the effect of campaign contributions on the distribution of TARP funds, the time period of the data and all other secondary data is from 2008. The data set contains contribution information for all candidates that ran for office in 2008 and for which congressional district.

The focus of this paper will be on the role of financial contributions from the finance sector and from the banks, not from the other sectors. The relevant variable to the model from the data will be the affiliation of each individual and political action committee. Each data set for individuals and political action committees contains information for affiliation with which industry and which organization. The data sets also contain information on indirect contributions from political action committees. Indirect contributions contain independent expenditures and communication costs. Since there are no limits to indirect contributions, banks can inject as much money as they desired to aid or hinder a candidate. It would be important to include these contributions with direct contributions to get an accurate assessment of the influence of money.

The data on the banks that have received TARP bailout money is available on the websites of CNN and ProPublica. The data starts at October 2008 and ends at December 2009 and contains the location of each bank's company headquarter. Seven hundred fifty eight banks were allocated 236.5 billion dollars from TARP.

The secondary data used will be income growth, median household income, inflation, importance of the financial sector in employment, population, and share of non-performing assets. Data for financial employment in each congressional district is available at the website of
the Bureau of Labor Statistics. The data is taken from the Quarterly Census of Employment and Wages. The Bureau of Labor Statistics grouped banks, insurance companies, and mortgage companies in the financial sector. The importance of the financial sector in each congressional district is determined by finding the financial sector's proportion in the district relative to total U.S. financial employment. The data for employment is at the county level, so Geocorr2k was used to convert the data from 3197 counties to the congressional district level using the 2000 US census. Geocorr2k is a tool developed by the University of Missouri that can map counties to districts.

Data for inflation is available on the website of the Bureau of Labor Statistics. The data is available from All Urban Consumers (Current Series). The inflation data represents eighty-seven percent of US population, and the data measures inflation for all goods. Data for income growth is available from the Bureau of Economic Analysis. The county level data is accessible from the Local Area Income. Median household income and population data are accessible from the US Census Bureau's website. The data is also on the county level. Geocorr2k will also be used to convert the county level income and population data to the congressional district level.

Data on the number of non-performing assets in a state can be found on the Federal Deposit Insurance Corporation website. The data is taken from the statistics gathered on banks on a state level. The non-performing assets are separated into assets that are under ninety days past due and assets that are ninety days or more past due. The data on non-performing assets is restricted to commercial banks. For all of the secondary data that are not on a congressional district level, Geocorr2k will be used to convert the data to the congressional district level using population to determine what percentage of a county belonged to a congressional district.
Summary Statistics

These tables contain descriptive statistics for population (pop08), non-performing assets of less than 90 days (less90), non-performing assets of greater than 90 days (greater90), total non-performing assets (allassets), inflation, employment (weightemp), median household income (weightmed), income growth (weightinc), proportion of campaign finance from financial industry per politician (finprop), total contributions from financial industry (totalfin), total campaign contributions (totalcontrib), contributions from PACs affiliated with the financial industry (paccontrib), bank bailouts, and contributions from individuals affiliated with the financial industry for each congressional district (indivcontrib).a

Table 1: Summary Statistics on Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std Dev</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>pop08</td>
<td>434</td>
<td>697971.9</td>
<td>71921.24</td>
<td>469262</td>
<td>991439</td>
</tr>
<tr>
<td>less90</td>
<td>434</td>
<td>2661498</td>
<td>4383608</td>
<td>11539</td>
<td>1.83e+07</td>
</tr>
<tr>
<td>greater90</td>
<td>434</td>
<td>958595.3</td>
<td>2547045</td>
<td>254</td>
<td>1.28e+07</td>
</tr>
<tr>
<td>allassets</td>
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<td>3491825</td>
<td>4653096</td>
<td>18465</td>
<td>2.18e+07</td>
</tr>
<tr>
<td>inflation</td>
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<td>2.126475</td>
<td>.117612</td>
<td>1.93</td>
<td>2.23</td>
</tr>
<tr>
<td>weightemp</td>
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<td>.5897475</td>
<td>.5096988</td>
<td>.062</td>
<td>8.36</td>
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<tr>
<td>weightmed</td>
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<td>34283.53</td>
<td>14472.15</td>
<td>3630.332</td>
<td>77285.5</td>
</tr>
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<td>weightinc</td>
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<td>2.273439</td>
<td>1.772359</td>
<td>-1.915954</td>
<td>8.943256</td>
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<td>.1430005</td>
<td>.0632225</td>
<td>.0277319</td>
<td>.4325693</td>
</tr>
<tr>
<td>totalfin</td>
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<td>125833.3</td>
<td>158174.4</td>
<td>1500</td>
<td>1774677</td>
</tr>
<tr>
<td>totalcontrib</td>
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<td>912069.9</td>
<td>1253778</td>
<td>6014</td>
<td>1.76e+07</td>
</tr>
<tr>
<td>paccontrib</td>
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<td>36807.95</td>
<td>-2000</td>
<td>464383</td>
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<tr>
<td>indivcontrib</td>
<td>434</td>
<td>104522.7</td>
<td>137053.1</td>
<td>0</td>
<td>1310294</td>
</tr>
<tr>
<td>Bank Bailout</td>
<td>758</td>
<td>3.12e+08</td>
<td>2.73e+09</td>
<td>7000</td>
<td>4.5e+10</td>
</tr>
</tbody>
</table>

Notes: Calculations by the author

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a Variable notes are in Appendix A
The summary statistics for contributions show that clearly the finance industry contributed approximately 54.6 million dollars. This means that the finance industry as on whole earned a positive return. Banks were allocated approximately 236.5 billion dollars from the US government while the finance sector as a whole contributed 54.6 million dollars. A back of the envelope calculation reveals that the returns to the banks from TARP exceed 4000%. Put bluntly, if the financial industry were to gain no more rents from future government policies, this bailout alone would justify continued campaign contributions at current real dollar levels for another four thousand years.

Table 2: Correlation Table for the First Vote and Second Vote on the TARP Bill

<table>
<thead>
<tr>
<th></th>
<th>1st Votes</th>
<th>republican</th>
<th>weightemp</th>
<th>weightmed</th>
<th>weightinc</th>
<th>finprop</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Votes</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>republican</td>
<td>-0.2669</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>weightemp</td>
<td>-0.0534</td>
<td>0.1267</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>weightmed</td>
<td>-0.0533</td>
<td>0.2027</td>
<td>0.4076</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>weightinc</td>
<td>-0.0971</td>
<td>0.1582</td>
<td>0.2953</td>
<td>0.5150</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>finprop</td>
<td>0.1835</td>
<td>0.0874</td>
<td>-0.0763</td>
<td>-0.1990</td>
<td>-0.1977</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2nd Votes</th>
<th>republican</th>
<th>weightemp</th>
<th>weightmed</th>
<th>weightinc</th>
<th>finprop</th>
</tr>
</thead>
<tbody>
<tr>
<td>2nd Votes</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>republican</td>
<td>-0.2706</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>weightemp</td>
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<td>0.1264</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>weightmed</td>
<td>-0.0631</td>
<td>0.2043</td>
<td>0.4072</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>weightinc</td>
<td>-0.1421</td>
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<td>0.2951</td>
<td>0.5156</td>
<td>1</td>
<td></td>
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<tr>
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<td>0.1270</td>
<td>0.0896</td>
<td>-0.0763</td>
<td>-0.1969</td>
<td>-0.1959</td>
<td>1</td>
</tr>
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</table>

Note: own calculations based on summary statistics

From the correlation tables, one can see that the variable Republican is the most strongly correlated variable with votes in both tables while the only other variable that has a significant correlation greater than ten percent in both tables is finprop. It is only in the second vote does
weightinc have a correlation greater than ten percent. In addition, the signs of correlation are as expected for these variables. Republicans are ideologically against government interventions and would be likely to vote against TARP. With finprop, as the percentage of contributions of the finance industry increase, the likelihood of voting for TARP increases according to the tables. With weightinc, congressional districts that experience a decrease in income growth will increase in likelihood of voting for TARP which makes sense since those districts would be experiencing economic hardships and need a bailout.

**Regression Results**

The regressions of the two house votes show that during the first house vote representatives were mainly influenced by political ideology, contributions from special interests, and their political career while controlling for economic factors.

Vote Composition Graph

Source: own illustration
In the first house vote, Republicans generally voted against the TARP bill because Republicans are averse to government interventions in the free market (Dorsch 2010). Politicians that received a larger portion of their campaign contributions from the financial industry voted for bailing out the finance industry, and politicians that were retiring or would be defeated in the 2008 election generally voted for the TARP bill as they no longer had to worry about being held accountable by voters. The influence of elections is in line with what was found during the Korean financial crisis. Re-election played a huge role in the actions of the Korean legislative body and their ability to push through financial reforms (Haggard and Mo 2000). Also, Barro's (1973) research showed that elections served as a check on politician's behavior.

The regression of the second house vote also showed that political ideology and contributions mattered. However, the magnitude of their effects decreased especially for contributions from the finance industry. This may be due to the change in perception of risk and possible losses during the time between the first house vote and the second house vote. When news reached Wall Street, Dow Jones dropped 777 points or seven percent. The reaction to the failed passage and the increase in perceived risk by Americans most likely propelled politicians to focus on how their actions would affect their constituents. This is backed by regression results as politicians with districts that had negative income growth were more likely to vote for the TARP bill. The main implication of this model is that politicians' votes will be affected by financial contributions and electoral concerns, and this will become less of a factor if people make it clear to the politicians the consequences of voting based on contributions and party ideology instead of rational economic reasoning.
In order to capture the economic, political, and financial factors, this logit model is used.

$$(\Pr=vote)=a+B_1\ln(\text{finprop})+B_2\ln(\text{weightemp})+B_3\ln(\text{weightmed})+B_4\ln(\text{weightinc})+B_5\ln(\text{inflation})+B_6(\text{Republican})+B_7(\text{allassets})+B_8(\text{greater90})+B_9(\text{less90})+B_{10}(\text{pop08})+B_{11}(\text{NotRelected})$$

The regression results from the two house votes are very similar. Republican and finprop are the only variables that are statistically significant in both votes. Every other variable had a p-value greater than 0.1 in either one of the votes. With the first house vote, the coefficient for finprop is 0.936 with a p-value less than 0.01. The coefficient for Republican is -1.31 with a p-value less than 0.01. The coefficient of NotRelected is 0.683 with a p-value of 0.073. The model had with the first house vote as the dependent variable a pseudo $R^2$ squared of 0.088.

The coefficient of finprop and Republican are 0.555 and -1.15 respectively with the second house vote as the dependent variable. The p-value of Republican is less than .01, and the p-value of finprop is 0.027. However, it is in the second house vote that the variable weightinc is significant. Weightinc has a coefficient of -0.337 with a p-value of 0.03. With the second house vote, the model has a pseudo $R^2$ squared of 0.0833. This means that the current model has similar explanatory powers for both house votes.

The significance of the variables Republican and finprop is in keeping with the results found by existing literature. Ideology plays a large role in the voting process as politicians tend to maintain the same position on issues so that they can be identified by like-minded voters and lobbyists. It is likely that lobbyists and contributions designed to increase the likelihood of the TARP bill passing will predominately go to politicians that have a strong history of supporting government backed market interventions. This is supported by the findings of (Kroszner and
Stratmann 2000). The results show that Republicans tended to vote against the TARP bill. This is probably due to the fact that Republicans are ideologically opposed to large-scale government interventions into the free market and this caused them to vote against TARP which is supported by research from Poole and Rosenthal (1997). Also, politicians that had a higher percentage of their campaign finance from the financial industry were more likely to vote in favor of the bill.

These results are in line with the results from Micheal Dorsch's (2010) model as he found that politicians that voted against interventions in the past had a greater probability of voting against the TARP bill, and politicians that voted for the TARP bill had more campaign contributions from the financial industry. Also, these results are supported by research done in the areas of international trade. Reynolds and Liebman's (2004) study of the Byrd Amendment on tariff fund disbursement and Gokcekus and Barth's (2007) work on trade duties show that politicians made their decisions on who would benefit from the trade barriers based on financial contributions from special interest. The regression results and the literature point to the fact that private interest do exert pressure on the government for rents, and the pressure achieves results.

However, it is somewhat surprising that economic factors had little effect. In the first house vote, the economic variables all had p-values greater than 0.2. It is only in the second house vote do the variable weightinc and weightemp's p-values decrease below 0.2 and only weightinc is significant. These results show that economic factors which can act as a proxy for popular pressure had little relevance in the minds of politicians until the second house vote. Politicians should be worried about decreasing income growth and lower employment as they represent their constituents, but it only occurred after greater attention was placed on the TARP
voting process after the first vote failed. This would suggest politicians have a tendency to forget about their voters.

Table 3: Regression Table

<table>
<thead>
<tr>
<th>Variable</th>
<th>First Vote Baseline</th>
<th>Baseline + economic</th>
<th>First Vote Full Model</th>
<th>Second Vote Baseline</th>
<th>Baseline + economic</th>
<th>Second Vote Full Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>republican</td>
<td>-1.34*** (.218)</td>
<td>-1.34*** (.225)</td>
<td>-1.31*** (.241)</td>
<td>-1.28*** (.216)</td>
<td>-1.24*** (.223)</td>
<td>-1.15*** (.238)</td>
</tr>
<tr>
<td>NotRelected</td>
<td>.807** (.37)</td>
<td>.727* (.377)</td>
<td>.683* (.381)</td>
<td>.415 (.363)</td>
<td>.397 (.372)</td>
<td>.35 (.375)</td>
</tr>
<tr>
<td>ln(finprop)</td>
<td>.925*** (.242)</td>
<td>.942*** (.257)</td>
<td>.936*** (.257)</td>
<td>.659*** (.238)</td>
<td>.562** (.25)</td>
<td>.555** (.251)</td>
</tr>
<tr>
<td>ln(weightinc)</td>
<td>-.145 (.131)</td>
<td>-.158 (.137)</td>
<td>-.308** (.148)</td>
<td>-.337** (.155)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ln(weightmed)</td>
<td>.307 (.34)</td>
<td>.324 (.345)</td>
<td>-.162 (.354)</td>
<td>-.138 (.359)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ln(weightemp)</td>
<td>.02 (.321)</td>
<td>-.028 (.327)</td>
<td>.617* (.334)</td>
<td>.555 (.359)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ln(inflation)</td>
<td>.711 (1.86)</td>
<td>.992 (2.11)</td>
<td>.269 (1.87)</td>
<td>.661 (2.12)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>allassets</td>
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<td></td>
<td>-4.59e-08 (1.53e-07)</td>
<td></td>
<td>-9.64e-08 (1.52e-07)</td>
<td></td>
</tr>
<tr>
<td>greater90</td>
<td></td>
<td></td>
<td>2.36e-08 (1.68e-07)</td>
<td></td>
<td>-3.93e-08 (1.67e-07)</td>
<td></td>
</tr>
<tr>
<td>less90</td>
<td></td>
<td></td>
<td>2.63e-08 (2.3e-07)</td>
<td></td>
<td>1.14e-07 (2.3e-07)</td>
<td></td>
</tr>
<tr>
<td>pop08</td>
<td></td>
<td></td>
<td>-5.18e-07 (1.6e-06)</td>
<td></td>
<td>-1.68e-06 (1.58e-06)</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>433</td>
<td>426</td>
<td>426</td>
<td>434</td>
<td>427</td>
<td>427</td>
</tr>
<tr>
<td>Pseudo R²</td>
<td>.0847</td>
<td>.0865</td>
<td>.088</td>
<td>.0703</td>
<td>.0798</td>
<td>.0833</td>
</tr>
</tbody>
</table>

Notes: Inflation, financial contributions, income growth, median household income, employment are calculated as logarithms. Bold face indicates significance at at least the 10% level. *, **, and *** indicate significance at 10, 5, and 1% levels, respectively.
This means that for a Republican the likelihood of voting for TARP is 0.27 of the odds of a Democrat in the first house vote. In the second house vote, the odds is 0.318 of a Democrat's likelihood to vote for TARP. With finprop, a one percent increase causes the odds to increase by a factor of 2.55 in the first house vote and increase by a factor of 1.74 in the second house vote. NotRelected is only significant in the first house vote and increases the probability of voting for TARP by a factor of 1.98 if an official is not going to be in the 111th Congress. Weightinc is only significant in the second house vote, and one percent increase in the variable decreases the likelihood of a politician voting for TARP by a factor 0.714.

With these results, it means that the most effective way of increasing the chances of a politician voting for TARP is to contribute more money, and the second most effective method is to lobby politicians that are not returning to office as more than fifty percent of those officials voted for TARP in both votes. Obviously, politicians with political ideologies that supported government interventions had a much greater probability of voting for TARP, and congressmen that experienced negative income growth in their districts were more likely to vote for TARP. However, special interest had no direct influence over these factors, so they would have been better suited to focus their efforts on increasing contributions and targeting officials not returning. While costs will vary between politicians, the net benefit for special interest will be overwhelmingly positive.

**Conclusion**

By controlling for macroeconomic factors and modeling the two votes on TARP. Important lessons can be learned. The results of the model show that money can buy votes. The
model shows that representatives with a one percent increase in finprop causes the odds of voting for TARP to increase by a factor of 2.55 in the first house vote and increase by a factor of 1.74 in the second house vote. Republican representatives were unlikely to vote for TARP. Their odds of voting for TARP was 0.27 and 0.318 of Democrats in the first and second house vote respectively. This was because TARP was against the free-market ideals held by the Republican party. This was seen in both house votes as more than fifty percent of Republicans voted against TARP. Also, politicians that were not going to be part of the new congress during the first house vote had odds of voting for TARP that were greater than returning congressmen by a factor of 1.98. This could be accounted by the fact they no longer have to worry about voter opinions. Also, in the second house vote, politicians that experienced a one percent increase in income growth had odds of voting for TARP decrease by a factor of 0.714.

The model shows that the first house votes for TARP were driven by contributions from the financial industry, political ideology, elections, and not by economic reasons. It was in the second house vote that the economic status of congressional districts played a role in politicians' voting behaviors. This was probably brought about by the increased awareness of the American public on the costs of not dealing with the financial crisis and by the reaction of Wall Street to the failed house vote. The implication of these regression results is that money affects politics and the awareness of the public matters, and the finance industry influenced congress with relatively little funds to get the 700 billion dollar TARP bill passed.

In order to affect the voting behavior of representatives, there has to be some limits placed on contributions from special interest, and the public has to be made aware of politicians' actions. With making the public aware of officials' voting behaviors, awareness could be
achieved through media ads and door to door canvassing. With the advent of social networking, millions of people can reached cheaply and effectively through Facebook or Twitter. The political change in Egypt in 2011 is an example of the power of social networking tools in facilitating awareness and action. In the United States, tools like Facebook or Twitter will become more important as unbiased methods of information dissemination. Financial interest groups have much more resources at their disposal to use to convey their message through traditional media. Television, radio, and newspapers are dependent on their relationships with the financial sector and will be unwilling to run stories that could damage that bond. However, interest groups can be helpful as any organization or group can come together and lobby the legislature. Individuals concerned about the voting behaviors of politicians in a financial crisis can form an interest group and counter the influence of financial special interest with their lobbying.

The limits on contributions are unlikely to occur as the people capable of enacting such changes are the representatives that benefit from the limited control on contributions. One way of eliminating potential bias would be to form an independent committee comprised of members, perhaps from academic circles, that do not receive any sort of money from the financial industry. Then this committee would be set with the task of providing recommendations and proposals on how to deal with a financial crisis, and the legislature would decide on whether or not to pass those proposals. This method would eliminate the direct influence of campaign contributions on shaping financial bills. This way whatever bill that is passed will have some semblance of objectivity. Also, politicians may be convinced of the benefits of limiting campaign contributions for their political careers. In elections, the politician with more money than his or her opponent
usually wins, and the current trend is towards greater campaign expenditures. Officials have to constantly fundraise or risk losing to an opponent due to a lack of funds. An end to the perpetual race of fundraising could be sold as something similar to the end of the arms race between the US and the Soviet Union. Reforms would eliminate the fear and the downside of not raising enough campaign funds and thus reduce the influence of special interest money.
Appendix A

Bank Bailout: It is the amount of TARP funds allocated to a bank, not necessarily disbursed.


Finprop: Contributions from individuals and contributions from PACs associated with finance, insurance, and real estate industry as a percentage of total contributions from individuals and PACs for the 2008 election cycle.

Totalfin: Contributions from individuals and contributions from PACs associated with finance, insurance, and real estate industry totaled for each congressional district for the 2008 election cycle.

Totalcontrib: Total contributions from individuals and contributions from PACs for each congressional district for the 2008 election cycle.

Indivcontrib: Contributions from individuals associated with the finance, insurance, and real estate industry totaled within each congressional district for the 2008 election cycle.

Paccontrib: Contributions from Political Action Committees associated with the finance, insurance, and real estate industry totaled within each congressional district for the 2008 election cycle.
Inflation: Inflation is based on regional inflation data from Northeast CPI index, Midwest CPI index, South CPI index, and West CPI index from 2007 to 2009.

Weightinc: It is the percent change in income from 2007 to 2008 on a county level.

Weightmed: It is the median household income of a county during 2008.

Weightemp: The amount of financial employment in the county relative to how much financial employment is in the US on a county level.

Less90: The number of assets that are not performing for less than ninety days in each state in thousands of dollars in 2008.

Greater90: The number of assets that are not performing for ninety days or more in each state in thousands of dollars in 2008.

Allassets: The total number of assets that are not performing in each state in thousands of dollars in 2008.
Bibliography


