



**Comments on Atif Mian, Amir Sufi and Francesco Trebbi's
“The Political Economy of the U.S.
Mortgage Default Crisis”**

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What this paper does

Provide evidence of robust correlations between...

1. Voting to support Fannie and Freddie (AHRFPA) and:
 - ▶ Mortgage default rate in your district (“Constituent interests”)
 - Particularly in sympathetic zip codes (“Dual constituency”)
 - Strongest in competitive races

 2. Voting for TARP (Emergency Economic Stabilization Act) and:
 - ▶ Campaign contributions from the financial sector
- These correlations hold, when controlling for:
- ▶ Legislator’s voting record (ideology)
 - ▶ Legislator characteristics: finance committee, experience
 - ▶ Electoral math: Vote margin in ’06; Presidential vote share in ’04
 - ▶ District demographics in 2000: race, ethnicity, education, income

Finding #1:

Voting for mortgage reform correlated with default rates

This paper argues

- ❑ Politicians are responsive to constituent interests
 - ▶ Voting for a bill that redistributes toward their constituents

Alternatives

- ❑ Information differences
 - ▶ Politicians are responsive to perceived macro conditions
 - ▶ And what is happening in your district shapes your beliefs
- ❑ Politicians are responsive to economic conditions generally (versus mortgage defaults)
 - ▶ The only measure of variation in economic conditions is the mortgage default rate (and sometimes, non-mortgage default rate)
- ❑ They are voting to “do something” (versus redistribute)

Explaining FOMC Votes

Regional unemployment rate minus U.S. unemployment rate (D)	Agree With majority	Dissent Easier policy	Dissent tighter policy	Total votes
Total	2205	66	132	2403
D > 2.5	14	1	0	15
2.0 < D ≤ 2.5	40	10	0	50
1.5 < D ≤ 2.0	73	3	0	76
1.0 < D ≤ 1.5	158	6	12	176
0.5 < D ≤ 1.0	302	13	6	321
0.0 < D ≤ 0.5	435	12	16	463
-0.5 < D ≤ 0.0	400	9	23	432
-1.0 < D ≤ -0.5	369	6	20	395
-1.5 < D ≤ -1.0	206	3	32	241
-2.0 < D ≤ -1.5	116	1	15	132
-2.5 < D ≤ -2.0	43	1	1	45
D ≤ -2.5	49	1	7	57
Mean value of D	-0.1	0.5	-0.7	-0.1
t-value	0.54	4.41**	5.89**	

68% of the "dovish dissents" were from regions with unemployment above the national average

74% of the "hawkish dissents" were from regions with unemployment below the national average

Figure 2

AHRFPA '08 vote and mortgage default rate in Republican districts

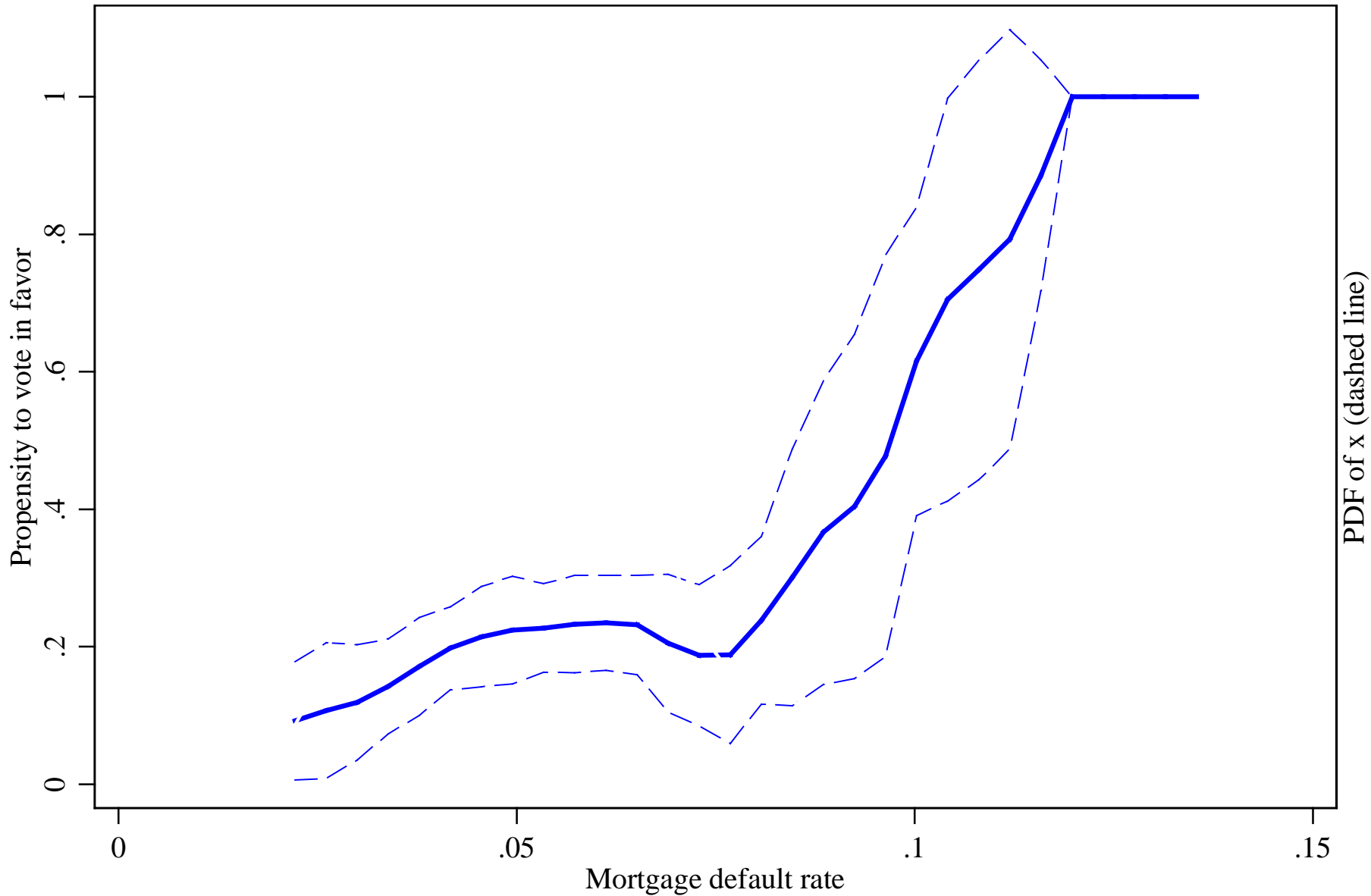


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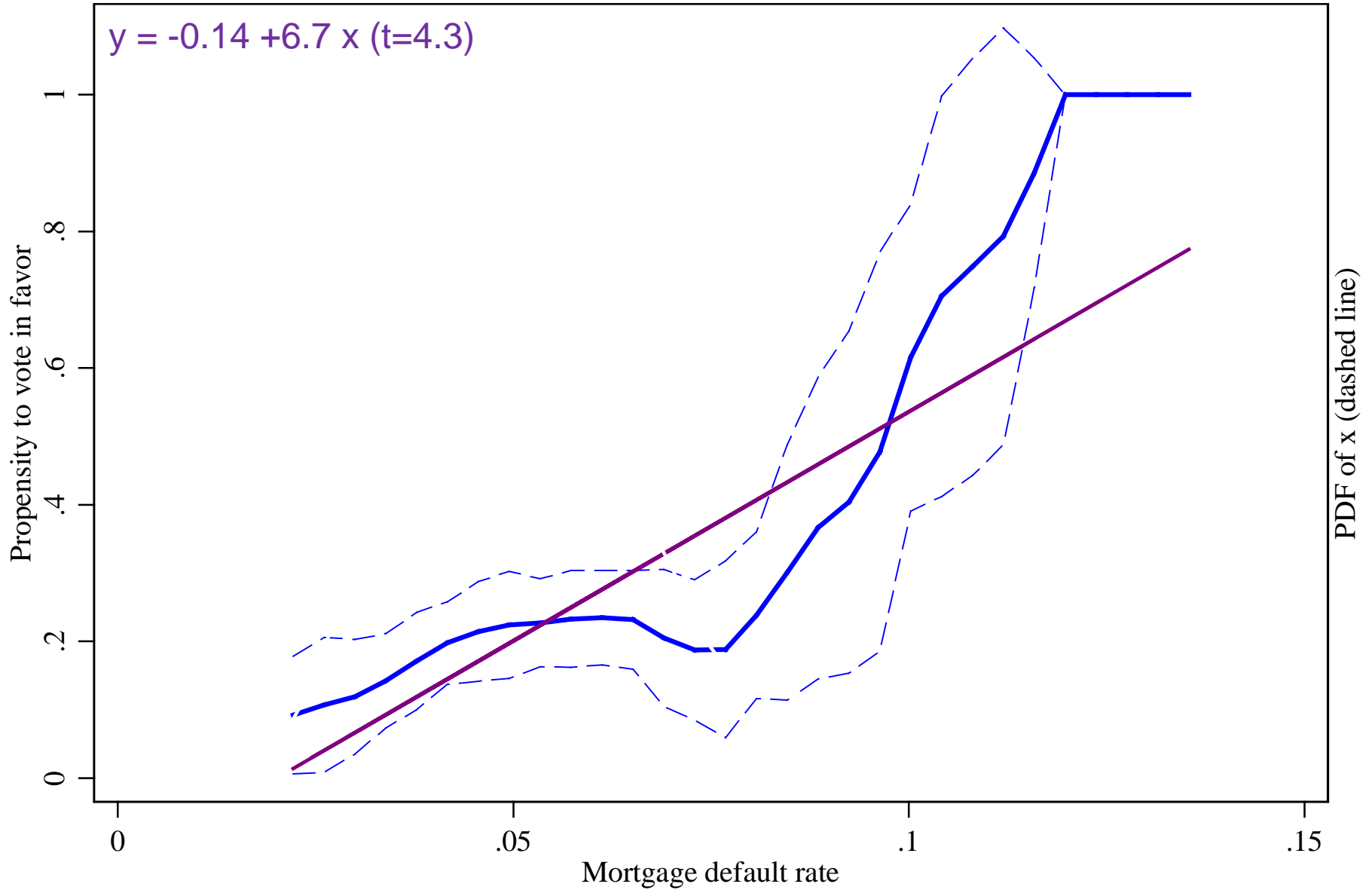


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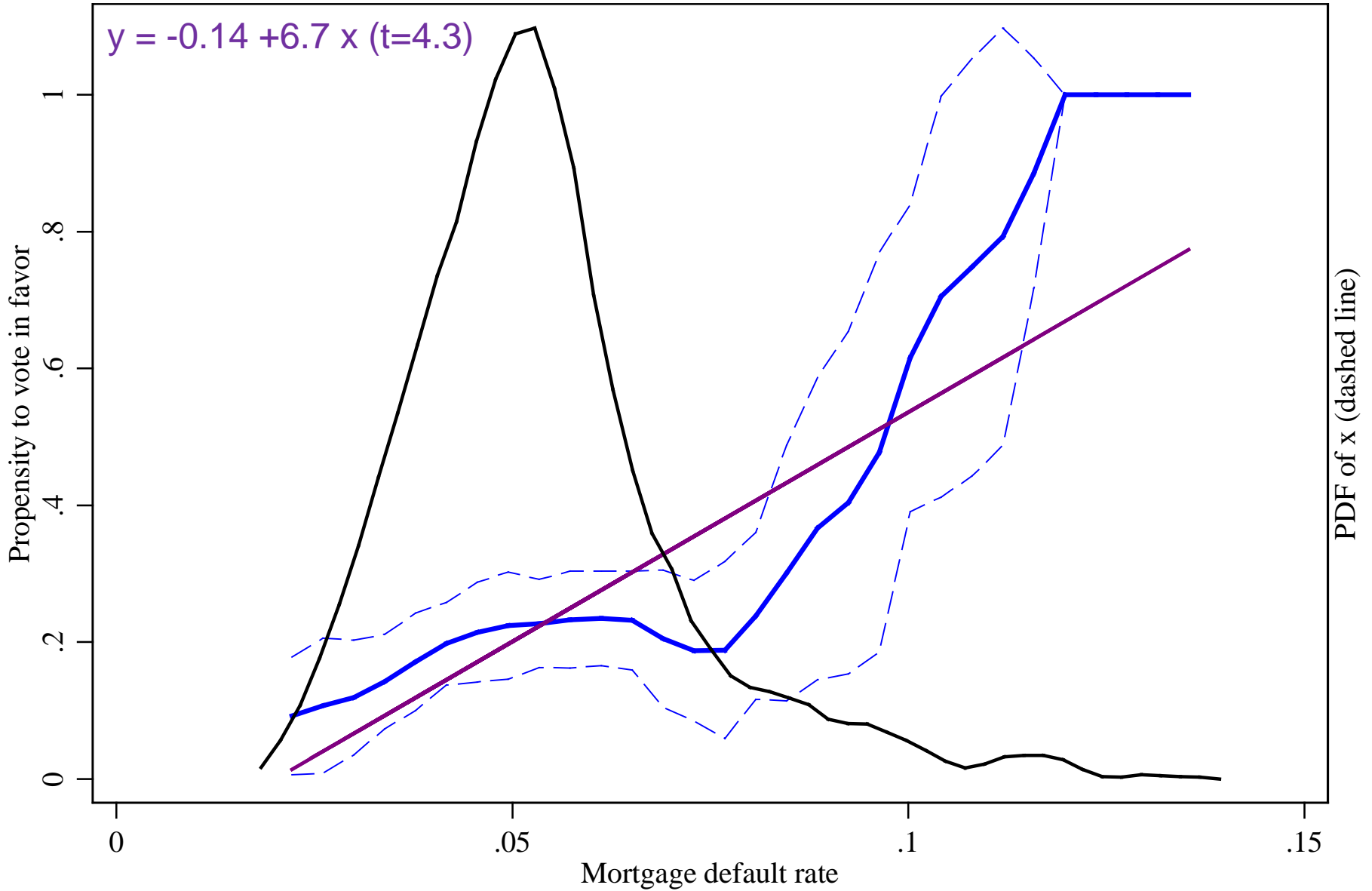
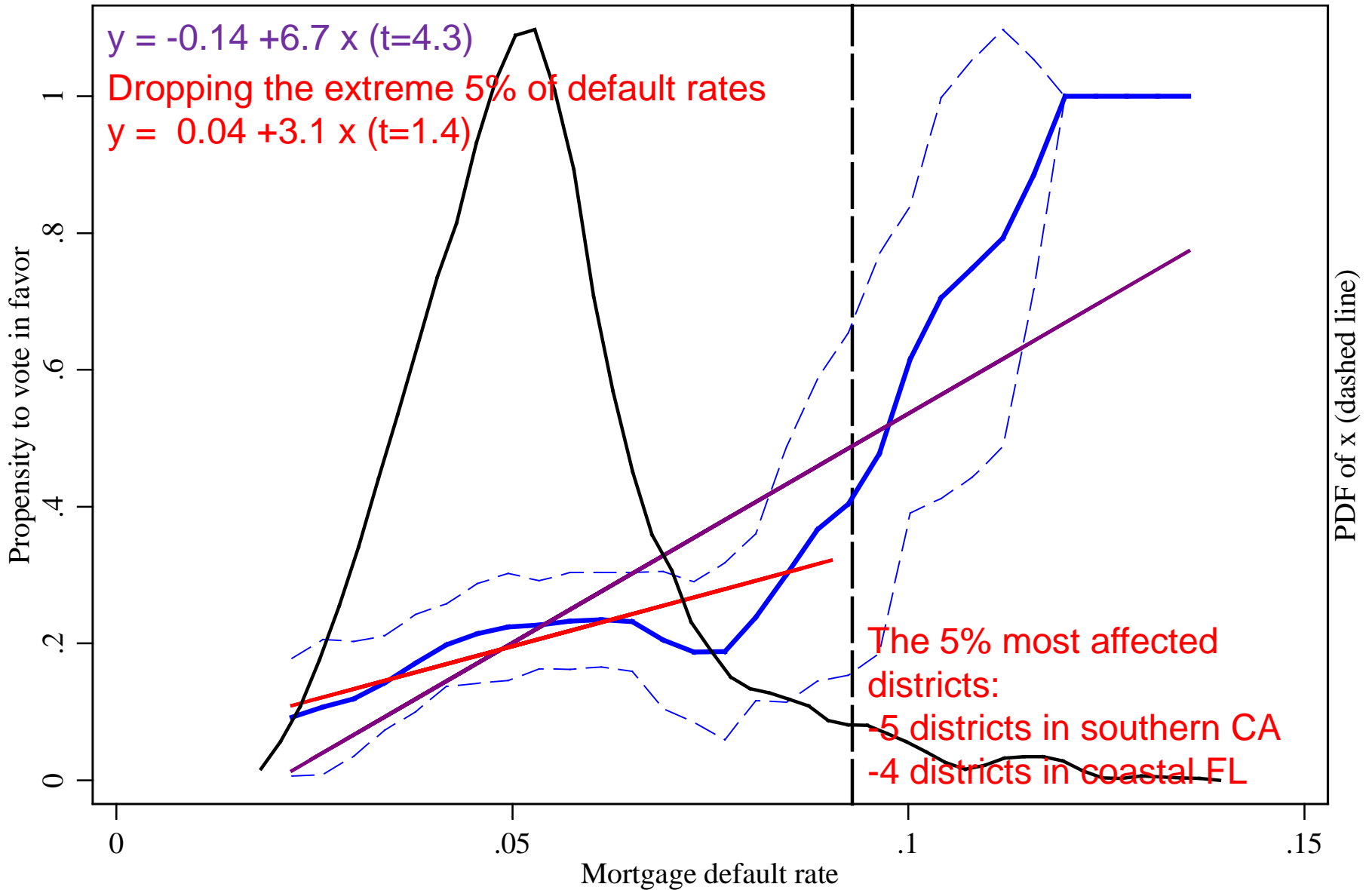


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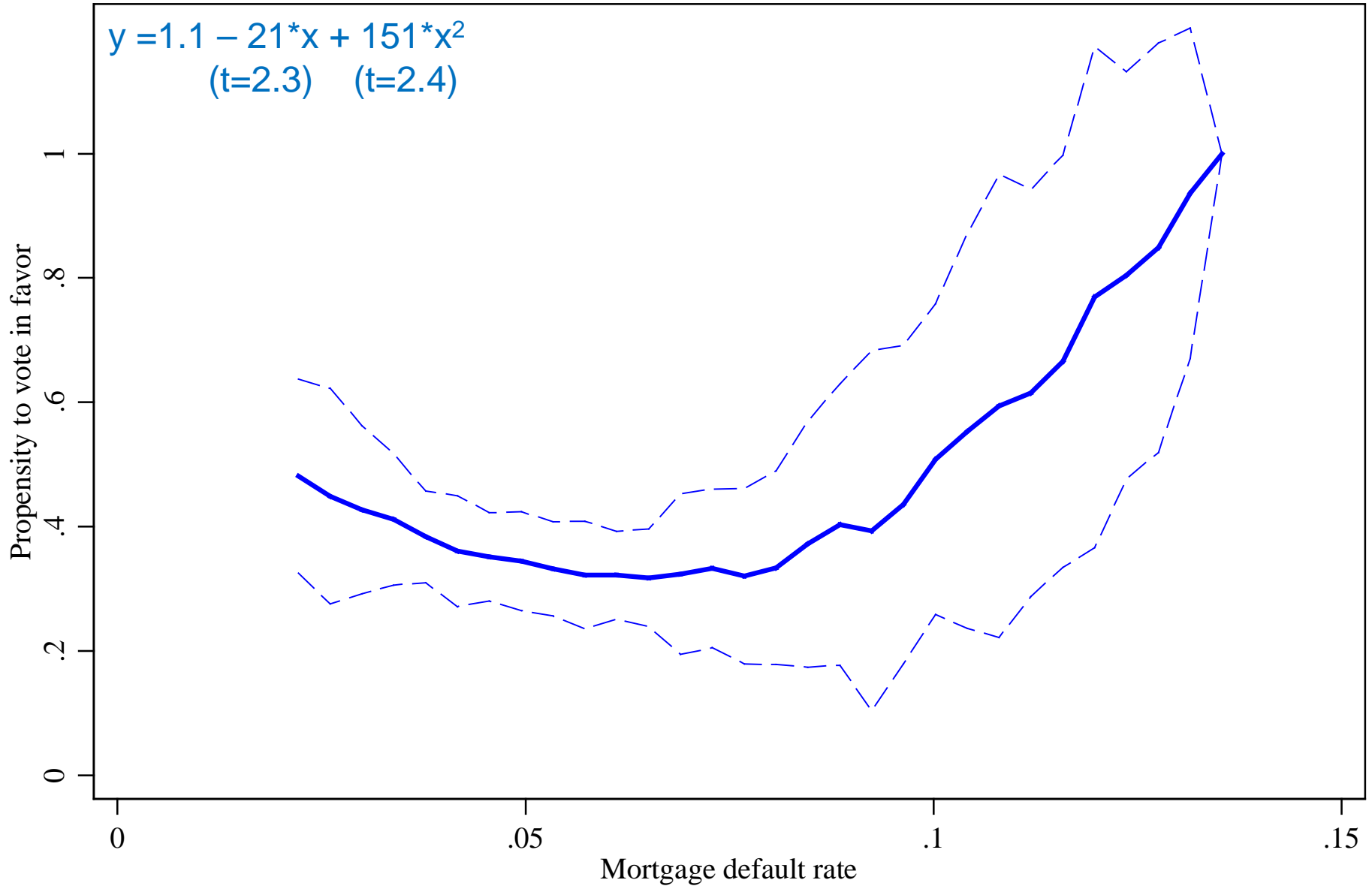
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A Placebo: HR-1456

- ❑ HR-1456: “To impose an additional tax on bonuses received from certain TARP recipients.”
 - ▶ Taxes AIG bonus recipients at 90%
 - ▶ Passed the House yesterday: 328-93
- ❑ Voting for this bill:
 - ▶ Unrelated to “constituent interests”
 - No distinct redistribution to default-prone parts of the country
 - ▶ Consistent with an urge to “do something”

AIG Vote

HR-1586 vote and mortgage default rate in Republican districts



Finding #2:

TARP votes and campaign donations are correlated

Broader question: What do campaign donations do?

❑ This paper argues: Buying votes

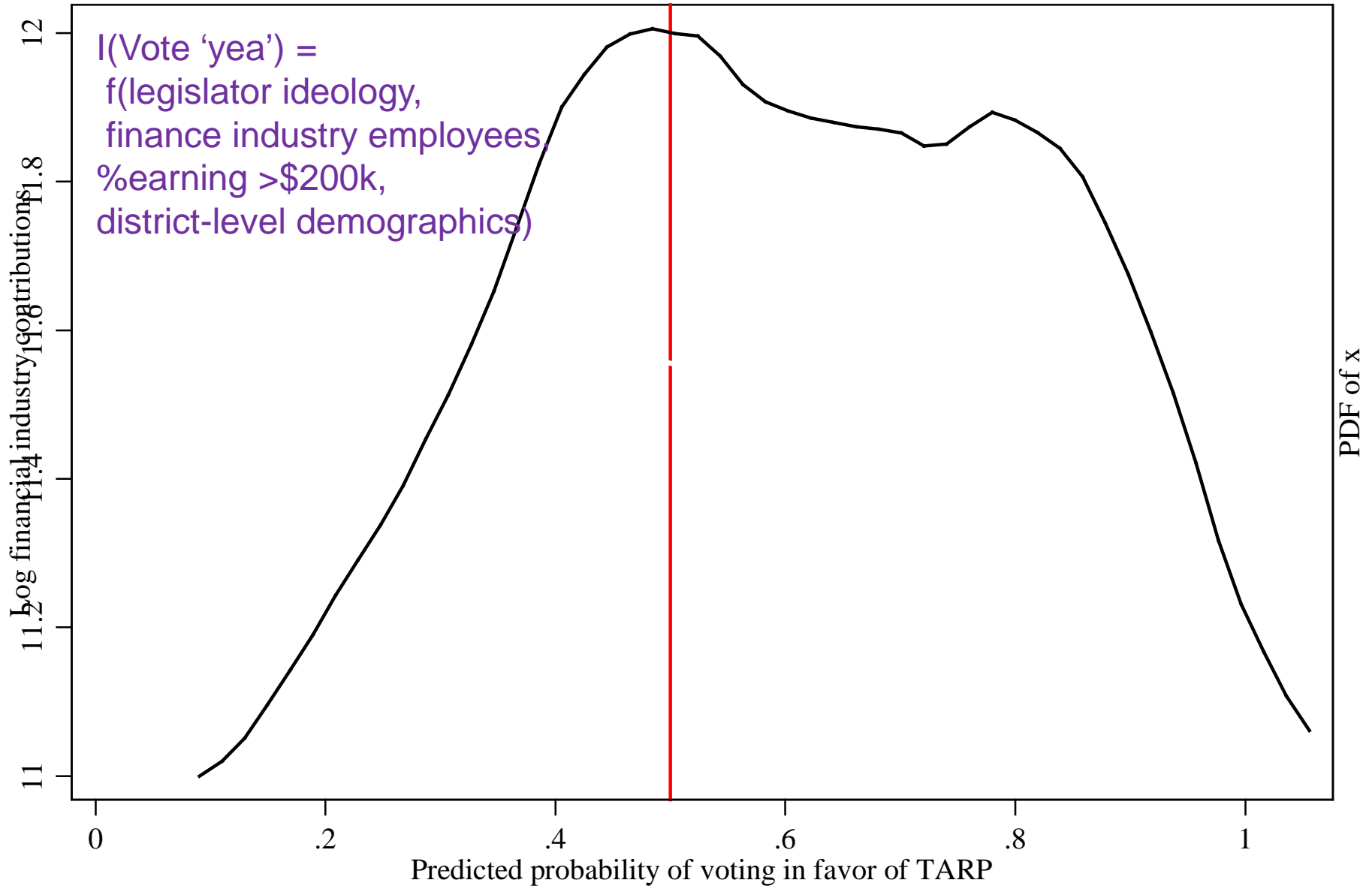
- ▶ Politicians are responsive to “special interests”, voting for a bill that redistributes to campaign donors
 - Implication: Target those legislators who will be “pivotal”

❑ Alternative explanation: Buying elections

- ▶ Campaign donors target politicians who are already sympathetic to their message, helping them get re-elected
 - Implication: Target those legislators in close races

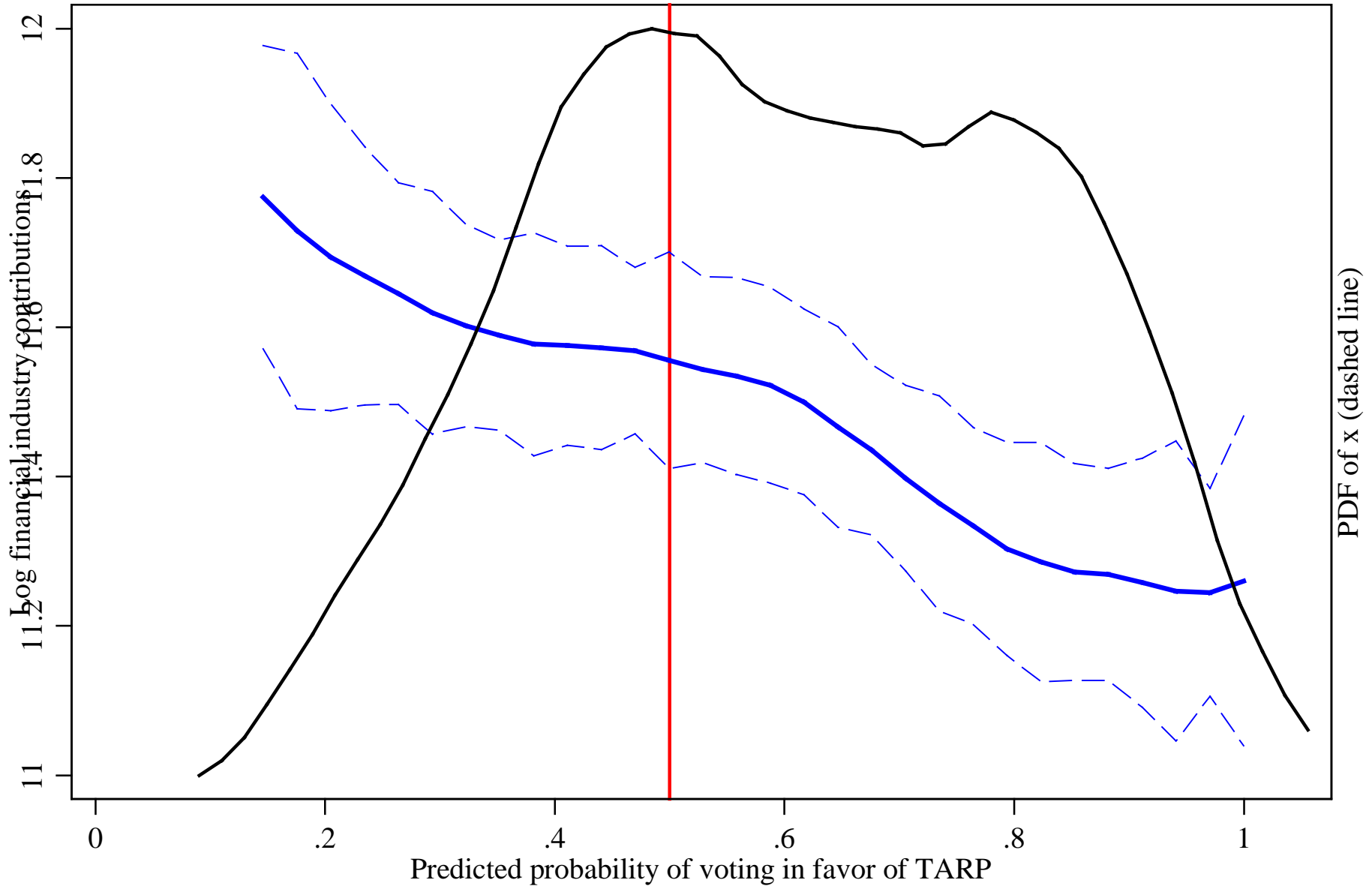
Do Finance Sector Campaign Donations Target Pivotal Legislators?

Probability legislator is pivotal on TARP bill, and finance sector donations



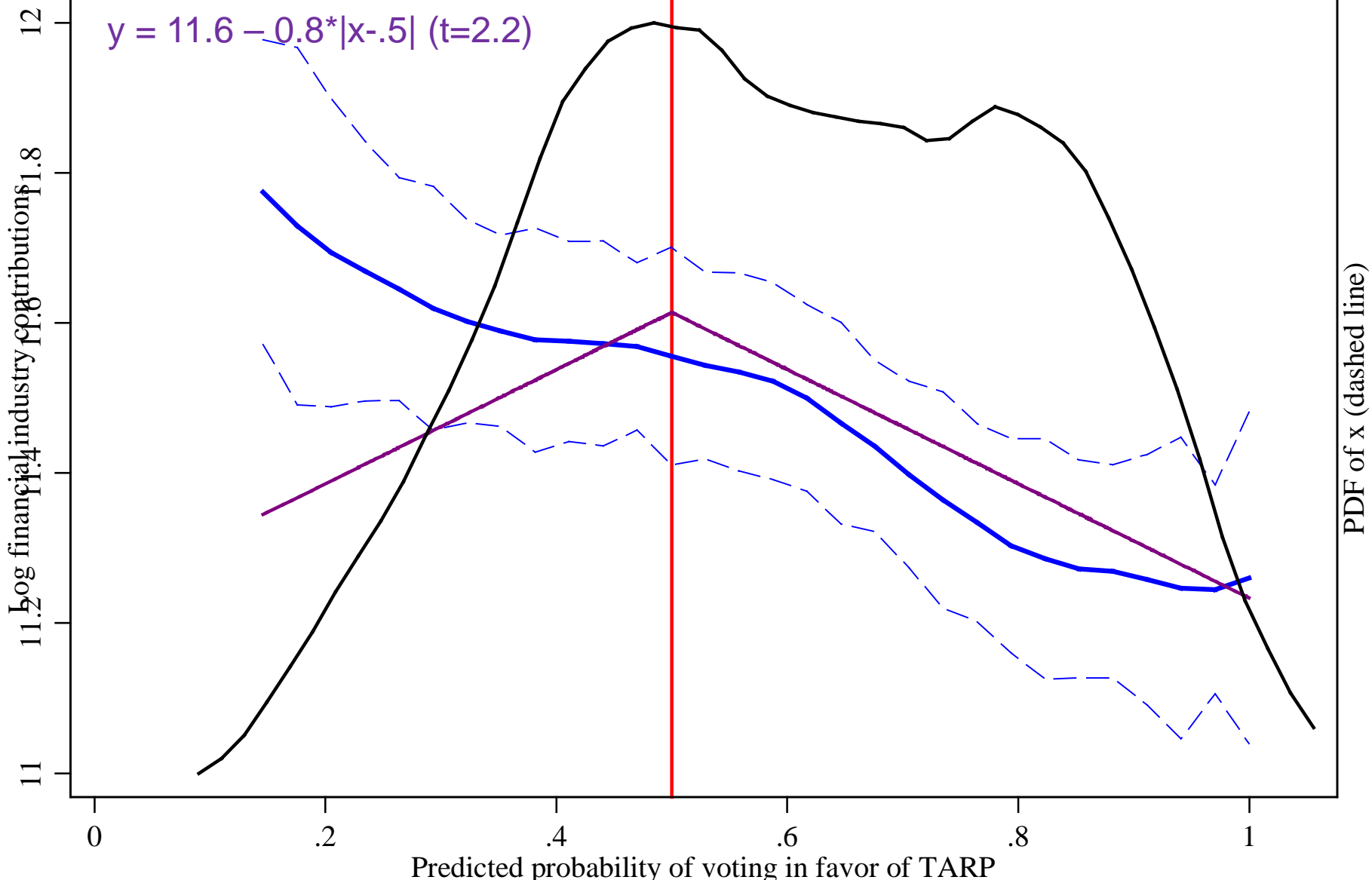
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- ▶ Implication: Target those legislators who will be “pivotal”
Identifying “pivotal” voters

- |Probability of voting ‘yea’ – 0.5|
 $\text{Log}(\text{finance sector donations}) = 11.6 - 0.8 * |\text{predicted probability} - 0.5|$
(t=2.2)
- Pivotal voters: Switched their votes between the two TARP votes
 $\text{Log}(\text{finance sector donations}) = 11.5 - 0.08 * \text{switcher}$ (t=0.6)

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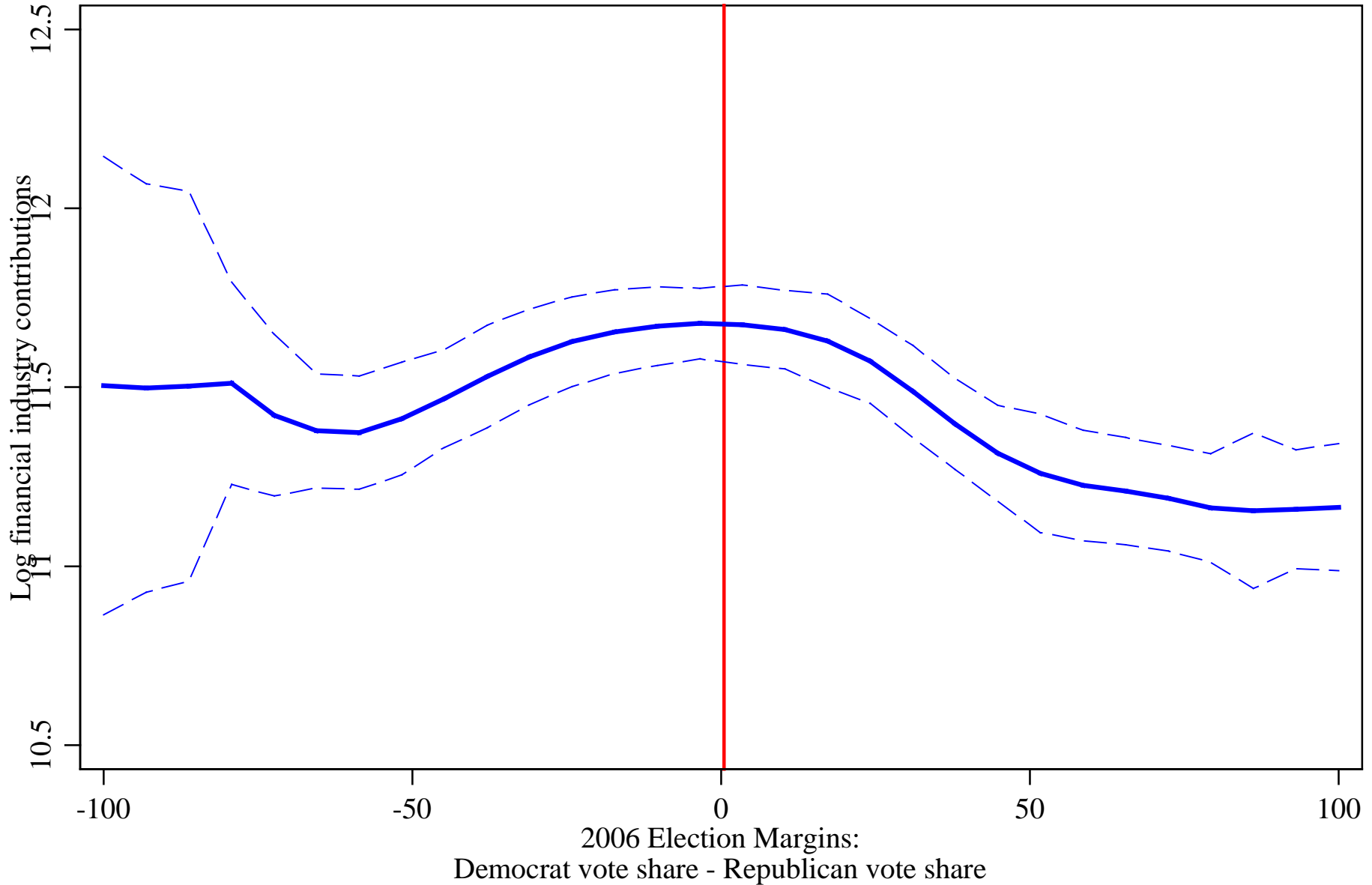
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Do Finance Sector Campaign Donations Target Close Races?

2006 election margins, and finance sector donations



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 - Particularly in sympathetic zip codes (“Dual constituency”)
 - Strongest in competitive races
 - ▶ Does this reflect “constituent interests”
OR differences in beliefs about the state of the economy?
 2. Voting for TARP (Emergency Economic Stabilization Act) and:
 - ▶ Campaign contributions from the financial sector
 - ▶ Does this reflect “special interests” buying votes
OR “special interests” funding legislators with sympathetic agendas?
- These correlations hold, when controlling for:
- ▶ Legislator’s voting record (ideology)
 - ▶ Legislator characteristics: finance committee, experience
 - ▶ Electoral math: Vote margin in ‘06; Presidential vote share in ‘04
 - ▶ District demographics in 2000: race, ethnicity, education, income

What's left?

❑ Quibble

- ▶ An unusual “solution” to multicollinearity

❑ Puzzle

- ▶ Why do legislators in safe districts respond to constituent interests at all?

❑ Big issue

- ▶ Lucas critique / strategic voting / external validity
- ▶ Estimating voting behavior when non-pivotal
 ≠ legislator's voting behavior when pivotal
- ▶ Are we learning about political posturing, or policy preferences?

❑ Suggestions

- ▶ Statistical issues: Expand set of placebo regressions
 - Why not gather data on 100 other pieces of legislation?
 - Yields the sampling distribution of the correlation between mortgage defaults and legislator votes
- ▶ Strategic voting: Exploit information on order of votes

A unique solution to multicollinearity (micronumerosity)

Do Politicians Respond Uniquely to Their Own Voting Bloc?

Their "solution":
Drop half the sample

The problem:
Difficult to distinguish
which variable
matters

	Sample: All Republicans		Sample split by Republicans in districts with large difference in default rates			
	With political controls	With census and political controls	Only above median sample	With census and political controls		
	(1)	(2)	(3)	(4)	(5)	(6)
Dependent Variable: Voted in favor of ARMTA '08 (July 26 th , 2008)						
Republican mortgage default rate	5.676+ (3.318)	5.002 (3.210)	8.523* (3.375)	9.345** (3.023)	8.840** (3.251)	12.921** (3.488)
Democratic mortgage default rate	1.109 (3.125)	1.820 (2.999)	-1.579 (3.683)	-3.124 (2.915)	-2.730 (3.362)	-5.880+ (3.187)
DW nominate ideology score	-0.960** (0.171)	-0.911** (0.168)	-0.875** (0.179)	-1.133** (0.275)	-0.965** (0.173)	-0.887** (0.180)
Ln(Financial industry contributions per cycle)	0.039 (0.033)	0.043 (0.045)	0.017 (0.048)	0.107+ (0.059)	0.036 (0.034)	0.017 (0.048)
(Republican mortgage default rate) * (Below median default difference?)					-23.832 (18.775)	-30.052 (21.719)
(Democratic mortgage default rate) * (Below median default difference?)					23.523 (18.520)	29.494 (21.380)
Below median default difference?					-0.107 (0.185)	-0.125 (0.000)
N	162	162	162	80	162	162
R ²	0.25	0.26	0.31	0.34	0.26	0.32

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Politics affected voting on the bailout

FiveThirtyEight: Politics Done Right: Swing District Congressmen Doomed Bailout - Mozilla Firefox

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http://www.fivethirtyeight.com/2008/09/swing-district-congressmen-doomed.l

When Economics and Politics Colli... x FiveThirtyEight: Politics Done Rig... x

FiveThirtyEight Politics Done Right

2010 SENATE RANKINGS

1	Pennsylvania ▲	Specter
2	New Hampshire	Open
3	Missouri	Open
4	Ohio	Open
5	Kentucky	Bunning
6	Florida	Open
7	Nevada	Reid
8	North Carolina	Burr
9	Illinois ▲	Burris
10	Connecticut ▲	Dodd
11	Colorado	Bennet
12	Texas	Open?
13	Delaware	Open
14	Louisiana ▲	Vitter
15	New York ▲	Gillibrand

Monday, September 29, 2008

Swing District Congressmen Doomed Bailout

This was predictable, I suppose, but it's remarkable to see how strong a relationship there is between **today's failed vote on the bailout** and the competitive nature of different House races.

Among 38 incumbent congressmen in races rated as "toss-up" or "lean" by **Swing State Project**, just 8 voted for the bailout as opposed to 30 against: a batting average of .211.

By comparison, the vote among congressmen who don't have as much to worry about was essentially even: 197 for, 198 against.

A complete breakdown follows below the fold.