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

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CEPR, CESifo, IZA and NBER

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

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

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.

Source: Ellen Meade & Nathan Sheets (2005), Regional Influences on FOMC Voting Patterns, JMCB 37(4).
Figure 2

AHRFPA '08 vote and mortgage default rate in Republican districts

\[ y = -0.14 + 6.7x \ (t=4.3) \]
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Propensity to vote in favor

Mortgage default rate

AHRFPA '08 vote and mortgage default rate in Republican districts

\[ y = -0.14 + 6.7x \ (t=4.3) \]

Dropping the extreme 5% of default rates

\[ y = 0.04 + 3.1x \ (t=1.4) \]

The 5% most affected districts:

- 5 districts in southern CA
- 4 districts in coastal FL
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- They are voting to “do something” (versus redistribute)
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”
Falsification exercise

Justin Wolfers, Comments on The Political Economy of the Mortgage Default Crisis

- Re-run results on today's AIG tax bill

\[ y = 1.1 - 21x + 151x^2 \]

\( (t=2.3) \quad (t=2.4) \)

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

\[
P(\text{Vote 'yea'}) = f(\text{legislator ideology, finance industry employees, } \% \text{ earning } > \$200k, \text{ district-level demographics})
\]
Do Finance Sector Campaign Donations Target Pivotal Legislators?

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

*Predicted probability of voting in favor of TARP*
Do Finance Sector Campaign Donations Target Pivotal Legislators?

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

\[ y = 11.6 - 0.8|x - 0.5| \quad (t=2.2) \]
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”
    - Identifying “pivotal” voters
      - Probability of voting ‘yea’ – 0.5
        \[
        \log(\text{finance sector donations}) = 11.6 - 0.8|\text{predicted probability} - 0.5| \quad (t=2.2)
        \]
      - Pivotal voters: Switched their votes between the two TARP votes
        \[
        \log(\text{finance sector donations}) = 11.5 - 0.08*\text{switcher} \quad (t=0.6)
        \]
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- Implication: Target those legislators who will be “pivotal”
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    - Probability of voting ‘yea’ – 0.5
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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 industry donations target pivotal lawmakers?

1. Probit: \( I(\text{Vote 'yea'}) = f(\text{legislator ideology, finance industry employees, %earning >$200k, district-level demographics}) \)

2. Regress donations on predicted voting behavior:

\[
\log(\text{finance sector donations}) = 11.6 - 0.8|\text{predicted probability - 0.5}| \quad (t=2.2)
\]

Legislators who actually changed their minds between the two TARP votes

\[ \Downarrow \]

Yields 59 legislators who are “pivotal”

\[
\log(\text{financial industry contributions}) = 11.5 - 0.08 \times \text{Switcher} \quad (t=0.6)
\]

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**Diagram: Do Finance Sector Campaign Donations Target Close Races?**

*2006 election margins, and finance sector donations*
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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
   - 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)

The problem:
Difficult to distinguish which variable matters

Their “solution”:
Drop half the sample

### Do Politicians Respond Uniquely to Their Own Voting Bloc?

<table>
<thead>
<tr>
<th>Sample:</th>
<th>All Republicans</th>
<th>With political controls</th>
<th>With census and political controls</th>
<th>Sample split by Republicans in districts with large difference in default rates</th>
<th>Only above median sample</th>
<th>With census and political controls</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
</tr>
<tr>
<td>Dependent Variable: Voted in favor of AHFPA '08 (July 26th, 2008)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Republican mortgage default rate</td>
<td>5.676+</td>
<td>5.002</td>
<td>8.523*</td>
<td>9.345**</td>
<td>8.840**</td>
<td>12.921**</td>
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<tr>
<td>(3.318)</td>
<td>(3.210)</td>
<td>(3.375)</td>
<td>(3.023)</td>
<td>(3.251)</td>
<td>(3.488)</td>
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<tr>
<td>Democratic mortgage default rate</td>
<td>1.109</td>
<td>1.820</td>
<td>-1.579</td>
<td>-3.124</td>
<td>-2.730</td>
<td>-5.880+</td>
</tr>
<tr>
<td>(3.125)</td>
<td>(2.999)</td>
<td>(3.683)</td>
<td>(2.915)</td>
<td>(3.362)</td>
<td>(3.187)</td>
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<tr>
<td>DW nominate ideology score</td>
<td>0.960</td>
<td>-0.911**</td>
<td>-0.875**</td>
<td>-1.133**</td>
<td>-0.965**</td>
<td>-0.887**</td>
</tr>
<tr>
<td>(0.171)</td>
<td>(0.168)</td>
<td>(0.179)</td>
<td>(0.275)</td>
<td>(0.173)</td>
<td>(0.180)</td>
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</tr>
<tr>
<td>Ln(Financial industry contributions per cycle)</td>
<td>0.039</td>
<td>0.043</td>
<td>0.017</td>
<td>0.107+</td>
<td>0.036</td>
<td>0.017</td>
</tr>
<tr>
<td>(0.033)</td>
<td>(0.045)</td>
<td>(0.048)</td>
<td>(0.059)</td>
<td>(0.034)</td>
<td>(0.048)</td>
<td></td>
</tr>
<tr>
<td>(Republic mortgage default rate) *</td>
<td></td>
<td></td>
<td></td>
<td>-23.832</td>
<td>-30.052</td>
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<tr>
<td>(Below median default difference?)</td>
<td></td>
<td></td>
<td></td>
<td>(18.775)</td>
<td>(21.719)</td>
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<tr>
<td>(Democratic mortgage default rate) *</td>
<td></td>
<td></td>
<td></td>
<td>23.523</td>
<td>29.494</td>
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</tr>
<tr>
<td>(Below median default difference?)</td>
<td></td>
<td></td>
<td></td>
<td>(18.520)</td>
<td>(21.380)</td>
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<tr>
<td>Below median default difference?</td>
<td></td>
<td></td>
<td></td>
<td>-0.107</td>
<td>-0.125</td>
<td></td>
</tr>
<tr>
<td>(Below median default difference?)</td>
<td></td>
<td></td>
<td></td>
<td>(0.185)</td>
<td>(0.000)</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>162</td>
<td>162</td>
<td>162</td>
<td>80</td>
<td>162</td>
<td>162</td>
</tr>
<tr>
<td>R²</td>
<td>0.25</td>
<td>0.26</td>
<td>0.31</td>
<td>0.34</td>
<td>0.26</td>
<td>0.32</td>
</tr>
</tbody>
</table>
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Politics affected voting on the bailout

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.