Fifty Shades Darker – Of Green: The Long War Against Dodd-Frank

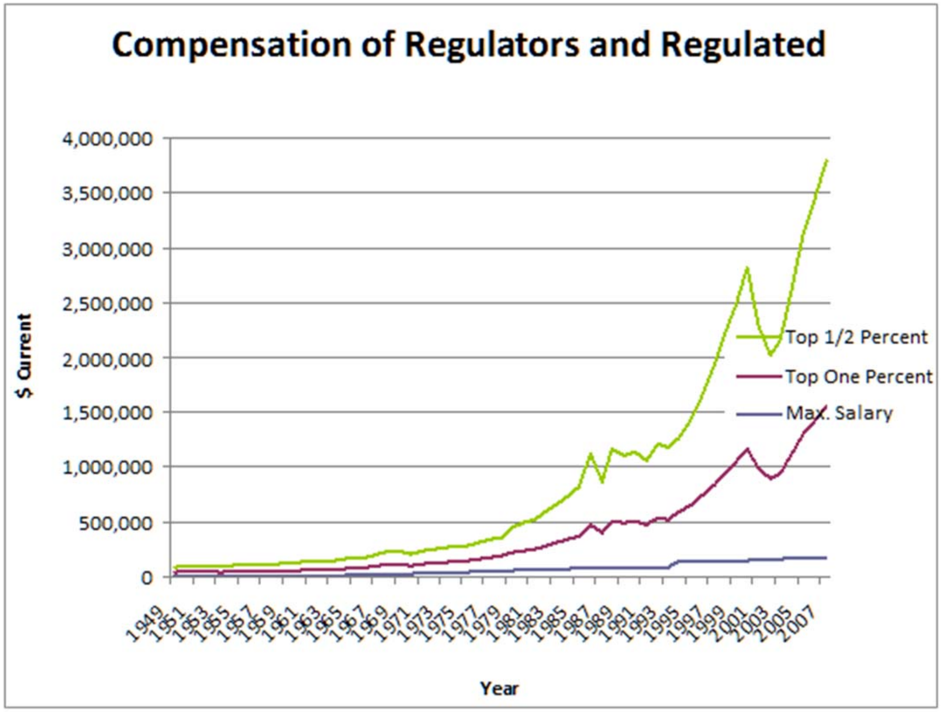
Thomas Ferguson
Professor Emeritus, University of Massachusetts, Boston
Director of Research, INET
Senior Fellow, Better Markets
Disclaimer: Not speaking for any of these.

1. Dodd-Frank is perhaps the epic money and politics story of our age.

2. Despite broad recognition that something went off the rails, the enormity of what has and is happening is not coming across. Existing accounts don't put the pieces together and they are plain wrong about some of those pieces.

Problem of Money in Politics is Problem of Money in Society (Think Inequality)

Figure After Ferguson and Johnson, 2013



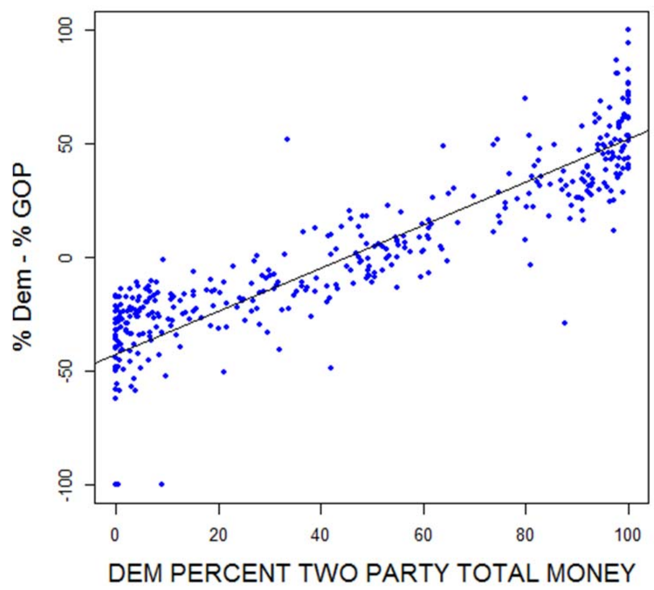
Formal Campaign Money is Only A Slice of the Spectrum of Political Money

Figure After Ferguson, Jorgensen, and Chen, 2017

1. Payments to Lawyers for Services	2. Payments to Political Figures	3. Foundations and Charitable Grants	4. Lobbying	5. Think Tanks	6. Formal Campaign Spending	7. Value of Stock Tips, IPOs To Political Figures	8. Public Relations Spending
(After Stigler, See Text) Substantial, But Unknown	Many Hundreds of Millions of Dollars Includes Certain Directors Fees, Speaking Fees, Book Contracts; Some "Research" and Philanthropic "Advice" From Consultants	Many Not Political; Some That Do Go Through Think Tanks $296 Billion in Total Giving in 2006; Perhaps 3 to 5% Might Count as Broadly Political	Legal Definition Is Very Narrow 2010 On the Record Totals Approx. $3.5 Billion. $ Refers to Washington, D.C. Lobbying in States and Cities Also Large	Rapid Growth Especially Since 1970s In 2005 Major D.C. Based Think Tanks Spent Approx $411 Million Many More Now Outside Washington, D.C. Not Included in Estimate	Total Expenditures on Federal Campaigns Only $5.2 Billion in 2008; State and Local Spending Heavy, Too	"Event Analysis" Studies Suggest Very Large in Certain Periods See Text	Some Certainly Affects Politics

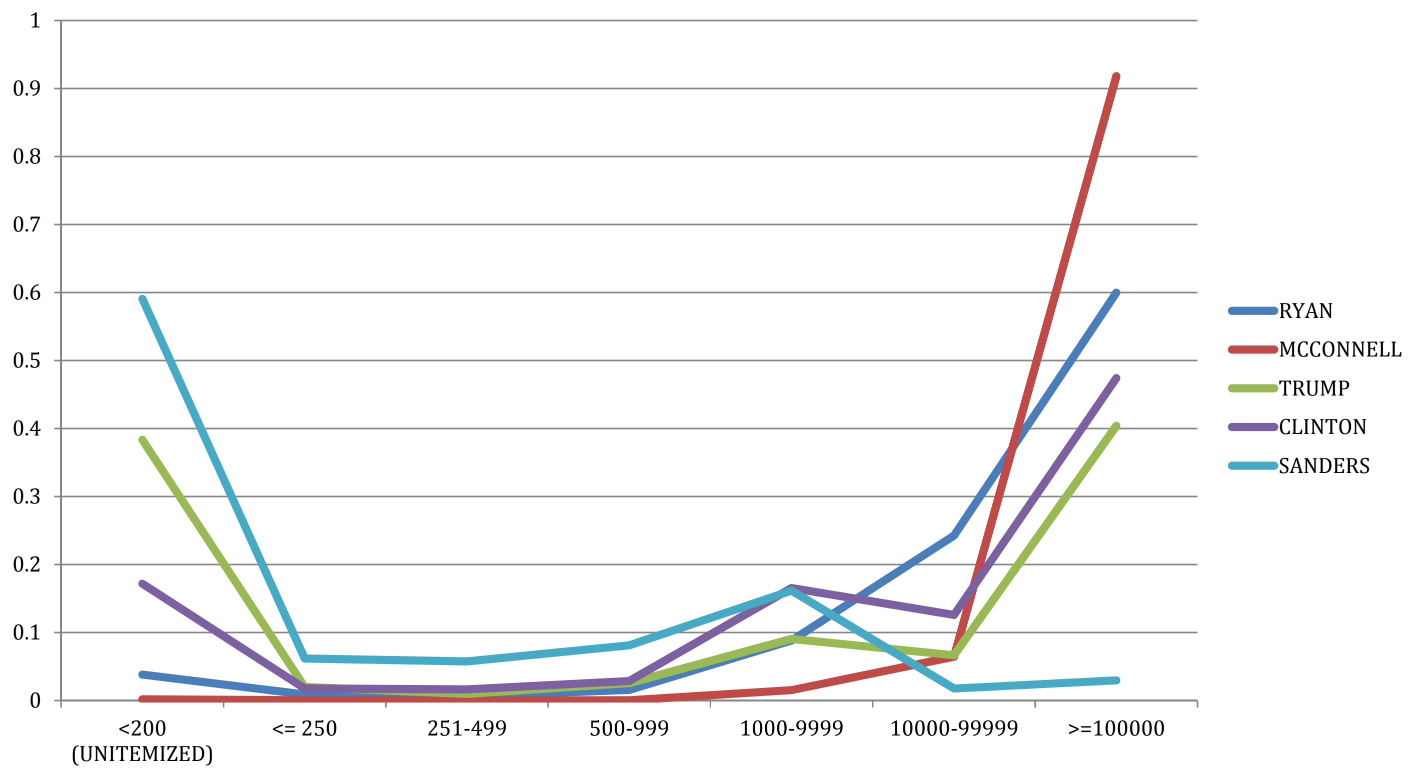
Linear Models of Legislative Elections: U.S. House 2012; All Such Elections For Which We Have Data, Including France (!) Look Roughly Like This

2012: Pseudo-R Sq .779; Bayesian Latent Spatial Instrumental Regression, Ferguson, Jorgensen, Chen 2016



2016 and the Trump Era:
One Picture Worth 1000s of Words

Data for Ferguson, Jorgensen, Chen, 2018



Ferguson, Jorgensen, Chen, Fifty Shades of Green, Roosevelt, 2017”

“The first equation, for the Democrats alone, analyzes the factors that drove individual Democrats to break with their party’s line and turn pro-Bank, after voting originally in favor of Dodd-Frank. … Our results indicate that for every hundred thousand dollars that Democratic representatives received from finance, the odds they would break with their party increased by 13.9%. To put that into perspective, consider that ….. Democratic representatives who voted in favor of finance often received $200,000 to $300,000 from that sector– enough to tempt even saints. That table also implies that contributions to the Democrats from finance look more than a little like the U.S. income distribution, with an average (mean) much higher than the median. Or in plain terms, financial houses tend to pour money into a part of the party.”

In logistic regression, coefficients are commonly interpreted by reference to odds ratios, that is how a unit increase in the predictor changes the odds of the outcome being evaluated for. In this case, the outcome is a Democrat who previously voted for Dodd-Frank breaking with the rest of the party and voting pro-Bank. Thus the estimated coefficient for representatives who serve on the Financial Services Committee – (Member Banking 13-14) is .63 and the odds ratio is 1.9, indicating that the odds of breaking with the party increase by 90% compared to representatives who do not serve on this committee. Note that this means that the odds have almost doubled, not that the absolute probability has, since in a logistic regression the latter changes with the value of the predictor in a non-linear way. The estimated coefficient for ConServR1314 is .08 and the odds ratio is 1.09, indicating that for every unit increase in ConServR1314 – the representative's score on the index of Conservatism – the odds of "breaking party" increase by 9%. The estimated coefficient for Left Congress After 2014 is 1.04 and the odds ratio is 2.8, indicating that the odds of a representative's "Breaking Party" are almost three times higher if he or she left Congress after 2014.

Kolakowski, Investopedia, Dec. 12, 2016:

“Banking executives have been highly critical for years of key parts of the Dodd-Frank legislation, which was passed in 2010 and imposed a broad range of strict regulations over the industry in the wake of the 2008-2009 financial crisis.But they now are moving to quickly head off President-Elect Donald Trump and other critics who are talking about dismantling it entirely, according to The Wall Street Journal. “We’re not for wholesale throwing out Dodd-Frank,” said JPMorgan Chase & Co. CEO Jamie Dimon. The Journal quoted Dimon at a conference of big bank executives. While a Republican-sponsored bill to overturn Dodd-Frank has been gaining support in the House since the election, and President-Elect Donald Trump’s transition team seems eager for repeal, bank executives have turned more cautious.”

Publicly Stated Objectives:

1. Stress test modified

2. Capital requirements

3. Volcker Rule

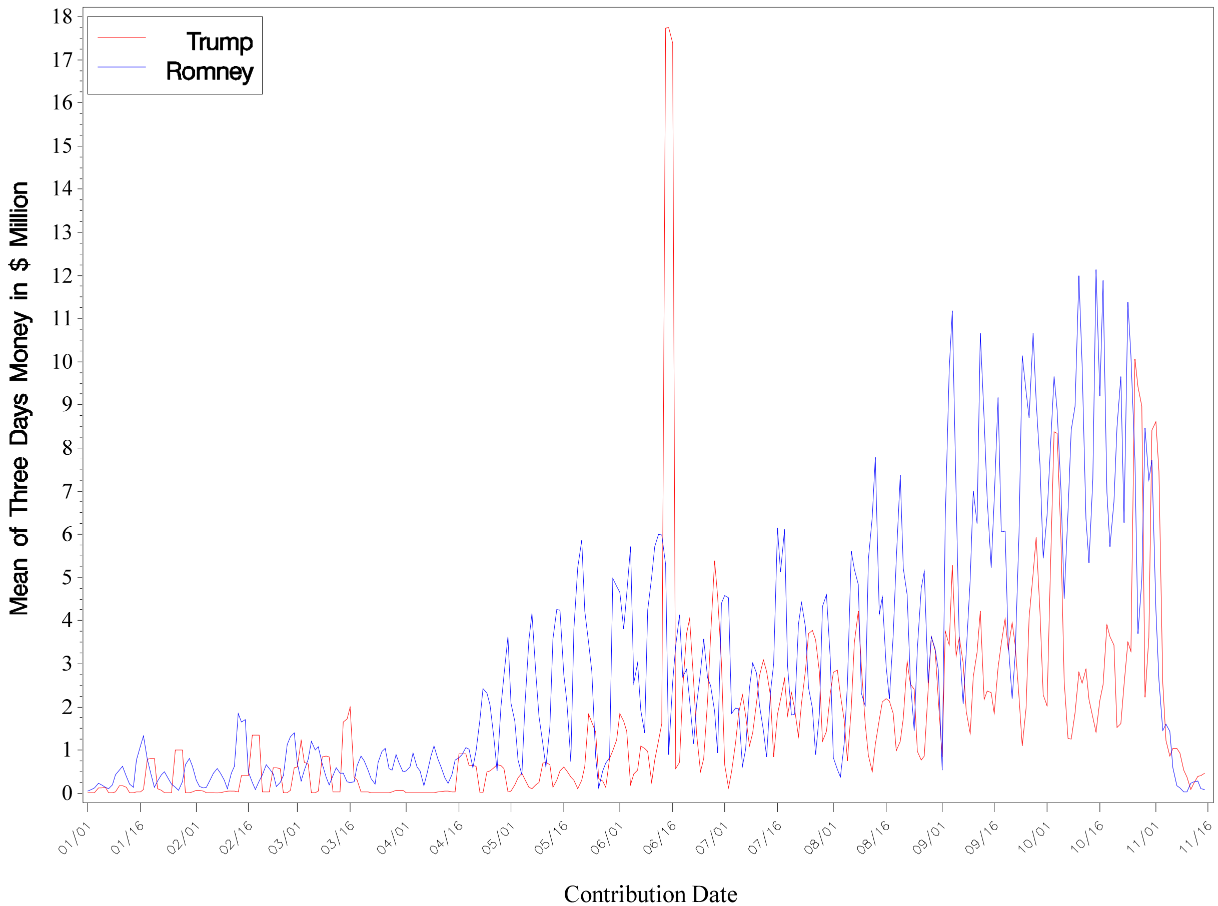
Unspoken in public:

Gut Consumer Financial Protection Board

Ferguson, Jorgensen, Chen, INET Working Paper 2018:
“As late as mid-May, Trump remained convinced that his success in using free media and his practice of going over the head of the establishment press directly to voters via Twitter would make it unnecessary for him to raise the ‘$1 billion to $2 billion that modern presidential campaigns were thought to require’ (Green, 2017).”

But as the Convention Approaches, the Logic of The Investment Approach to Politics Becomes Overpowering: the Trump Campaign Looks For Money.

Money Flow into Trump Campaign By Day; Romney 2012 Used for Comparison



The run up to the Convention brought in substantial new money, including, for the first time, significant contributions from big business. Firms or top executives from mining, especially coal mining; Big Pharma (which was certainly worried by tough talk from the Democrats, including Hillary Clinton, about regulating drug prices); tobacco, chemical companies, and oil (including substantial sums from executives at Chevron, Exxon, and many medium sized firms); and telecommunications (notably AT&T, which had a major merge merger pending) all weighed in. Money from executives at the big banks also began streaming in, including Bank of America, J. P. Morgan Chase, Morgan Stanley, and Wells Fargo. Parts of Silicon Valley also started coming in from the cold. Contrary to many post-election press accounts, in the end contributions from major Silicon Valley firms or their executives would rank among Trump's bigger sources of funds, though as a group in the aggregate Silicon Valley tilted heavily in favor of Clinton. Just ahead of the Republican convention, for example, at a moment when such donations were hotly debated, Facebook contributed $900,000 to the Cleveland Host Committee. In a harbinger of things to come, additional money came from firms and industries that appear to have been attracted by Trump's talk of tariffs, including steel and companies making machinery of various types.

What’s Not in the list of reforms Post-Election:

Basic rules on derivatives:

Greenberger, INET, forthcoming

Senate Bill, Passed with 11 Democratic Votes

House Version Impending; Not Same.

Are We Safer? The Case for Strengthening the Bagehot Arsenal

Timothy F. Geithner

Problem: Fiscal Capacity, After Tax Legislation