

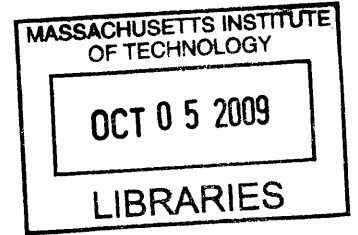
Congress and the Financial Services Industry, 1989-2008

by

Matthew Philip Clifford

B.A. (Hons.) History and Management

University of Cambridge, United Kingdom, 2008



SUBMITTED TO THE DEPARTMENT OF POLITICAL SCIENCE IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF SCIENCE IN POLITICAL SCIENCE

AT THE

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

SEPTEMBER 2009

**ARCHIVES**

© Massachusetts Institute of Technology 2009. All Rights Reserved.

Signature of Author .....

*[Handwritten signature]*

Department of Political Science

September 9, 2009

Certified by .....

*[Handwritten signature]*

Charles Stewart III

Professor of Political Science

Thesis Supervisor

Accepted by .....

*[Handwritten signature]*

Roger Peterson

Associate Professor of Political Science

Chair, Graduate Program Committee



# Congress and the Financial Services Industry, 1989-2008

by

Matthew Philip Clifford

Submitted to the Department of Political Science on September 9 2009 in partial fulfillment of the requirements for the Degree of Master of Science in Political Science.

## ABSTRACT

This thesis explores the congressional politics of the financial services industry in the United States between 1989 and 2008. Three approaches are pursued. First, I provide a detailed account of the major legislation concerning the industry during this period, with particular reference to interest group competition between commercial banks, securities firms and insurance companies and to the repeal of the Glass-Steagall Act in 1999. I suggest that intra-industry conflict was instrumental in delaying Glass-Steagall's repeal until 1999, but that these eventually faded away in response to events outside the Congressional sphere and gave way to a period of intra-industry cooperation in the years after 1999 because the repeal of Glass-Steagall effectively aligned the interests of industry sub-sectors. Second, I present statistical evidence that suggest that these changes are reflected in the contribution strategies of PACs aligned with the financial services industry. Before the repeal of Glass-Steagall, competing groups within the industry valued certain individual legislator characteristics (above all, various committee memberships) at quite different levels. However, after 1999, the contribution strategies of the industry sub-sectors converge in patterns consistent with the reduction of interest group competition. Third, I present the results of statistical models that provide further evidence that the repeal of Glass-Steagall represents a turning point with respect to intra-industry competition. I show that after 1999 competing interest groups began to coordinate their contributions to members of committees with jurisdiction over financial services legislation; before the repeal of Glass-Steagall, there is no evidence of this. Taken together, these three approaches suggest that the regulatory environment shapes not only the business practices of corporations, but also the ways they attempt to influence public policy.

Thesis Supervisor: Charles Stewart III

Title: Professor of Political Science

## **Introduction**

The financial crisis that began in 2007 and continues at the time of writing has made the financial services industry perhaps the most discussed and debated sector of the American economy. Each day brings fresh commentary in the news media on the state of the industry and its prospects for recovery in the years ahead. Central to this discussion is the issue of regulation – or, rather, re-regulation, for the industry’s near collapse came at the end of two decades of steady liberalization of the financial services industry. The question of how and how far to limit the actions of financial markets participants is at the forefront of the public debate. This thesis cannot hope to begin to answer that question and even mere suggestion is well outside its scope. My aim here is rather to provide some context to the current debates by reviewing the recent history of the financial services industry through a highly specific lens – the lens of congressional politics.

More than most industries, the contours of the financial services sector have been shaped by governmental action and rarely more so than in the last twenty years. Indeed, this thesis takes as its pivot the repeal of the Glass-Steagall Act in 1999, which formally permitted commercial banks, securities firms and insurance companies to acquire controlling interests in one another and enter one another’s businesses. This reversed a prohibition against such actions that had been in place since the Depression. It is my argument in this thesis that the repeal of Glass-Steagall marks a crucial turning point not only for the way that the financial services industry conducted business, but moreover for the way that it interacted with government. By considering the decade either side of the law’s repeal, I demonstrate its centrality in three ways.

First, in the opening chapter I provide a congressional history of the financial services industry from 1989 to 2008. Here I show that the congressional agenda both shaped and was

shaped by the type of interest group competition engendered by Glass-Steagall. Then, in chapter two, I pursue this notion of interest group competition further, by investigating the contribution strategies of competing political action committees associated with financial services firms before and after the repeal of Glass-Steagall. I show that the end of the Glass-Steagall period marked a watershed that profoundly altered the industry's relationships with members of Congress, as the contingencies of the long struggle to repeal Glass-Steagall made way for a decade of industry cooperation. Finally, in the third chapter, I provide further evidence that changes in the structure of interest group competition – themselves partly a consequence of congressional action – have important consequences for the way that firms deploy their resources in their efforts to secure favorable legislative action. Before the repeal of Glass-Steagall, the various sub-sectors of the financial services industry did not coordinate their campaign contributions to crucial members of Congress; afterward, they appear to have done so, which may have important policy consequences.

This thesis, of course, is only a starting point toward a much fuller understanding of the politics of the financial services industry. The most crucial question of all – how and with what consequences the industry has influenced public policy – can only be a matter of speculation in this work. However, it is my hope that it provides several elements of the necessary foundation of future work in this direction. Events in the global economy over the last two years have demonstrated the extraordinary power of the financial services industry over the real economy and, arguably, parallel events in Congress have demonstrated that the industry's political power is no less awesome. It is toward to the goal of explaining and understanding that power that this thesis is directed.

## **Chapter One: A Congressional History of the Financial Services Industry**

This chapter recounts a congressional history of financial services-related legislation between 1989 and 2008. As the length and detail of the account are somewhat atypical for a political science study, some discussion of its parameters and some justification for its inclusion are necessary. I discuss developments in major pieces of financial services legislation in every year from 1989 to 2009. For the period before 1999, I focus largely on the multiple attempts to overhaul the Depression-era Glass-Steagall regulations, which prohibited commercial banks from owning securities or insurance firms and from providing most securities and insurance services. However, throughout the period I also discuss other major legislative developments specific to the financial services industry that attracted significant lobbying efforts from one or more of the three main financial services sub-sectors (commercial banks, securities firms and insurance companies). Although there is no non-arbitrary means of determining what counts as a “major legislative development” or a “significant lobbying effort”, in general my subject is legislation that occupied the attention of the House Banking Committee to the extent that hearings or mark-ups were held.

However, it is important to note that this chapter does not represent an exhaustive account of the activities of this committee over the last two decades. Legislation considered by the committee that concerned corporate interests generally, rather than financial services matters specifically is omitted unless it attracted special interest from one of the three sub-sectors. For example, the Sarbanes-Oxley Act that reformed corporate governance practices in the United States is one of the most prominent pieces of the legislation to emerge from the Banking Committee over the last decade, but is not discussed here, as its provisions apply to all major corporations rather than primarily to banks or insurance firms. I include discussion of developments in both chambers, but as the statistical analyses that follow in chapters two

and three concern the relationships between financial services PACs and members of the House of Representatives, activity in the House tends to be discussed in more detail.

This chapter serves three purposes. First, although the congressional politics of the financial services industry occupies an increasingly important place in public and political discourse, to the best of my knowledge there exists no concise account of the topic's development over the last two decades. As political scientists show a growing interest in explaining and exploring the impact of legislative developments since the 1980s on, for example, social and economic inequality (see Hacker and Pierson 2009), accurate accounts of the evolving relationship between industries and Congress represent an important foundation for future research. Second, detailed accounts of the changing web of alliances and interest group competition allow the formation of more nuanced hypotheses than are possible when the period is described in broader brushstrokes. For example, Kroszner and Stratmann (1998), one of the few political science studies to deal explicitly with the financial services sector, uses a simplified model of intra-industry conflict, in which interest-group coalitions are static over time.<sup>1</sup> The more detailed account given here allows me, in chapters two and three, to formulate hypotheses and interpret results in line with a dynamic view of interest group coalitions.

Third, I would argue that the complexity of the account provided here offers an implicit critique of much of the existing literature on whether and how campaign contributions are used to purchase influence. Although few studies have been able to demonstrate that donations to members of Congress are rewarded with favorable roll call votes, the idea that a relationship exists remains at the heart of recent contributions to the literature (see, for example, Fellowes and Wolf 2004). Moreover, one of the few studies to claim a direct

---

<sup>1</sup> Specifically, the study assumes that securities and insurance companies are permanently and consistently allied against commercial banks. My study demonstrates that both the composition and the strength of coalitions vary across time.

relationship between contributions and changes in legislators' roll call voting concerns not only the financial services sector generally, but the repeal of Glass-Steagall specifically (Stratmann 2002). My study, by highlighting the relatively low importance of roll call voting in the history of Glass-Steagall's repeal and the relatively high importance of committee mark-ups and behind-the-scenes negotiations, casts doubt on the utility of searching for influence-buying in roll call votes. Similarly, my account represents an implicit counterargument to the generalizability of Stratmann's (1998) work on the timing of PAC contributions. Stratmann here suggests that corporate PACs 'time' their donations to maximize their legislative impact and minimize defection by clustering their giving around crucial roll call votes. Using the example of the agricultural industry, Stratmann shows that the weeks immediately before and after final passage votes on the Farm Bill are associated with significantly higher levels of contributions by agricultural PACs. Although it is tempting to look for a parallel effect with respect to the financial services industry, the multiplicity of legislative events that were crucial to, say, the repeal of Glass-Steagall, make such an approach impractical: whereas the cyclical re-authorization of the Farm Bill provides a focal legislative event for agricultural PACs, my account suggests that no such event exists for financial services PACs. Consequently, it would be impossible to know where to look for evidence of contribution 'timing'.

This account, then, is designed to provide a single, concise history of the congressional politics of the financial services history; allow the formulation of more realistic hypotheses about dynamic interest group coalitions; and provide a critique of approaches to the problem of campaign contributions that do not take into account the complexity of the legislative process for highly lobbied issues.

To prevent the reader from feeling swamped by detail, I divide the two decades studied into three broadly defined 'periods'. As with any attempt at periodization, this inevitably creates

overly sharp dividing lines and obscures many continuities between periods; it has, nevertheless, the virtue of clarifying the major themes to be gleaned from this account. The first period, from 1989 to 1994, represents the years in which it be broadly argued that Congress remained the principal battleground in the struggle to repeal Glass-Steagall and during which those opposed to the repeal might reasonably have expected to be able to hold out indefinitely by continual obstruction in Congress. The second period, from 1995 to 1999, saw Congressional supremacy in the controversy eroded by a series of judicial and regulatory decisions that left the largest players within the financial services industry increasingly able to conduct business *as though* a repeal of Glass-Steagall were already in effect. Consequently, the commercial banks were increasingly unwilling to make concessions in the legislative arena and, eventually, the securities and insurance firms became reconciled to the codification of the new regulatory environment in legislation. The final period, 2000-2008, is the post-Glass Steagall era, during which major interest group competition within the financial services industry fell away, to be replaced with almost a decade of finance-friendly legislative developments.

The events of these three periods suggest the three major arguments that run through this narrative: first, that in the earlier period it was primarily the vociferous opposition of insurance and securities interests that prevented the repeal of Glass-Steagall; second, that these interests were never defeated in the congressional arena until the utility of opposition was rendered minimal by a series of judicial and regulatory decisions outside the purview of Congress; and, third, that in the absence of intra-industry competition, legislation after 2000 reliably reflected the interests of the increasingly united financial services industry.

**Background: What was Glass-Steagall and why does it matter?**

In October 1933, following waves of bank failures across the United States, Congress passed the Glass-Steagall Act, named for its co-sponsors Senator Carter Glass (D-VA) and Representative Henry Steagall (D-AL). The law's crucial provision prohibited commercial banks from providing securities services, including underwriting. Over the next twenty years, further regulations on bank ownership and provision of non-banking services – most notably insurance sales – were enacted, with the 1956 Bank Holding Company Act the culmination of these efforts. Although regulation of commercial banking activities was ultimately restricted by several different laws, I shall follow the standard industry practice of referring to the thicket of regulation that the banks sought to see overhauled as “Glass-Steagall”.

The purpose of the legislation was to make impossible the sort of abuses that were widely seen to have contributed to the financial crises that precipitated the Depression. Above all, it was argued that allowing banks to undertake risky investments of the type practised by securities firms with depositors' money reduced confidence in the financial system and created an inherent conflict of interest for the banks themselves. Moreover, with the advent of government-provided deposit insurance, allowing commercial banks to engage in more speculative activity arguably created a tax-payer funded subsidy to risky investments. Consequently, the post-1956 financial services industry saw sharp delineation between commercial banks, which primarily took deposits and made loans; securities firms, which underwrote, traded and invested in securities; and insurance firms that provided insurance services covering the health, housing and automobile industries, among others.

Though on some issues – for example, corporate taxation or freedom of international capital movements – the three kinds of firms had similar interests, this regulatory divide also created sharp tension within the industry. It is important to note that this tension for the most part concerned the prohibitions of Glass-Steagall itself. Commercial banking in the post-Depression era had been designed to be as low-risk and utilitarian as possible; while the aim

was to prevent the recurrence of catastrophic systemic failure, its other effect was to limit the profits of commercial banks, which were prohibited from seeking the higher returns on investment available to securities and insurance firms. Consequently, the commercial banks, especially the larger institutions, recognized a great interest in being permitted to enter these markets. They argued that not only would higher profits be good for shareholder, but that furthermore the diversification enabled by repealing Glass-Steagall would in fact reduce risk. By contrast, securities and insurance firms had much to fear from the emergence of new competitors in their markets, especially large, well-capitalized competitors that in many cases enjoyed high levels of brand recognition and customer loyalty. Accordingly, both sets of firms strongly opposed any expansion of commercial banking powers.

Although there had been several small-scale efforts on the part of the major banks to repeal some or all of Glass-Steagall's provisions through the 1960s and 1970s, it was not until the 1980s that the commercial banking lobby took up the issue in earnest. The Reagan Administration was sympathetic to their cause and backed the industry's attempts to secure partial repeal in 1983, but Congress showed little interest in the issue until later in the decade. In 1988, the Senate succeeded in passing a bill that would have greatly loosened restrictions on the major banks, but the House made little progress on the issue. It was arguably at this point that the magnitude of the effort that would be required to overhaul the law became clear to the major banks – and the scale of the threat this posed became clear to their securities and insurance industry rivals. I take up the story in 1989, as Congress struggled to find an appropriate response to the Savings and Loans Crisis and as the three industry sub-sectors prepared for a major struggle over what seemed then to be an imminent repeal of Glass-Steagall.

### **Congressional Proxy Wars: 1989 – 1994**

Congress stood at the center of the struggle to repeal Glass-Steagall in this first period and, consequently, was the battleground on which the three industry sub-sectors fought vicious proxy wars, desperate to extend or defend their territory. Legislation to expand commercial banking powers was introduced several times, but insurance and securities firms succeeded on each occasion in throwing up sufficient congressional roadblocks to prevent passage. Although some important roll call votes were taken, the dominant impression of this period is the much greater influence wielded in committee mark-ups and negotiations held out of the public eye. Particularly, the stoking of rival committees' claims of jurisdiction and the encouragement of intra-party conflict were key weapons in the arsenal of the opponents of repeal.

The 1989 congressional session was dominated by legislation designed to respond to the Savings and Loans crisis of the previous year that saw large numbers of thrifts fail. The Congressional response was relatively swift and decisive – the Bush Administration proposed a bill in February and it was signed into law by August – but consequently there was little action toward a repeal or revision of Glass-Steagall, which had been expected given the narrow failure of repeal efforts in 1988 and the continued erosion of the law's provisions by judicial and regulatory decisions (1989 Congressional Quarterly Almanac, 14).

HR 1278, which became known as the Financial Institutions Reform, Recovery and Enforcement Act, was designed to restructure and refinance the Savings and Loans industry by scrapping the existing regulator, the Federal Home Loan Bank Board; placing failed trusts under Federal Deposit Insurance Corporation conservatorship; and establishing and funding the Resolution Trust Corporation to buy and resell failed thrifts. Perhaps owing to the extent of the crisis and the breadth of issues upon which the bill touched, the legislation was

considered by a plethora of House committees – including the Judiciary Committee, Ways and Means and Government Operations, as well as the House Banking Committee. The claims of each committee would be used to great effect by the insurance industry in future congressional battles as the lobby sought to find new veto points to stall legislation.

Nevertheless, this bill, broadly backed by the full financial services industry and the Bush Administration, passed quickly through the legislative process and cleared the House floor, 320 votes to 97, on June 15. Less than a week later, it was approved by voice vote in the Senate and after a brief conference procedure, was signed into law on August 9.

There were two other important financial-services-related legislative efforts during the 1989 session that illustrate the small but important ways that intra-industry conflict could spill outside the Glass-Steagall contest and into other areas. First, in January, the House Banking Committee considered HR 736, which provided for the terms and conditions associated with savings accounts to be made accessible to consumers. However, the bill met with opposition from commercial banks, which argued that the legislation would impose costs on banks that would not apply to less heavily regulated mutual fund industry (1989 Congressional Almanac, 141). The bill never reached debate on the floor, though work began on a Senate equivalent, which would have extended the requirements to mutual funds.

Second, against the strong opposition of the futures trading lobby, both chambers of Congress considered bills, HR 2869 and S 1729, to crack down on trading abuses in the futures market that had come to national attention following the indictment in August of almost 50 futures traders in Chicago for illegal trading and profit skimming. Although the House measure cleared the floor unanimously in September, floor amendments stripped out the most contentious provisions – notably a proposed increase in margin requirements for futures traders – following intensive lobbying by the Chicago Mercantile Exchange and despite the

counter-lobbying of the New York Stock Exchange (1989 Congressional Almanac, 393). At the end of the 1989 session, the Senate version remained under consideration, to be taken up again in 1990.

The wave of public anger that followed the Savings and Loan crisis and that was exacerbated by the high profile failure of Lincoln S&L in California and the subsequent “Keating Five” scandal meant that 1990 was potentially dangerous for the financial services' industry's fortunes in Congress. The anti-bank climate not only temporarily pushed Glass-Steagall reform off the agenda, but also prompted a series of unfriendly bills and amendments, most notably the very heavy sentences for bank fraud that were inserted into S 1970, the crime bill (1990 Congressional Almanac, 183).

It is important to emphasize that although the commercial banks were the strong rivals of insurance and securities firms with respect to Glass-Steagall reform, on other issues they did little or nothing to hinder each other, perhaps recognizing the virtues of a lightly industry as a public good. For example, the most important legislative effort, however, primarily concerned the securities industry rather than the large banks: following stock market crashes in 1987 and, to a lesser extent, in 1989, there was considerable legislative enthusiasm for a rewrite of securities regulation. The Brady report, commissioned by the Reagan Administration, was published in 1988 and its recommendations formed the basis of HR 3657, which was signed into law in October. The bill granted the Securities and Exchange Commission (SEC) greater powers to regulate stock market transactions and created new penalties for breaches of securities law. The bill was subject to intense lobbying by the securities industry, which succeeded in removing some of the most far-reaching provisions, such as the SEC's power to curb vaguely defined “disruptive practices”, a measure that had been inserted by the Finance Subcommittee of the House Energy and Commerce Committee

(1990 Congressional Almanac, 192). Nevertheless, perhaps owing to the extent of public scrutiny, the bill made rapid and relatively straightforward passage through Congress. Once reported out by the Commerce committee in June, it was cleared by voice vote on the House floor the same week. The Senate took up the measure after the summer recess and approved the bill, also by voice vote, in late September. It was signed into law by President Bush in mid-October.

One measure that the new regulation failed to incorporate was any resolution of the debate on futures regulation that had been considered in the previous session and had been the subject of serious dispute between different interests within the securities sector. Attempts to cede some of the authority that currently resided in the Commodity and Futures Trading Commission to the SEC were fiercely resisted by the Chicago Mercantile Exchange and sympathetic members of the House Agriculture Committee, despite the strong support of the New York-based stock exchanges and the House Commerce Committee. Clashes between these two groups, described as “turf wars” by CQ Weekly, remained unresolved at the end of the session, prompting Senator Patrick Leahy (D-VT), Chair of the Senate Agriculture Committee, to complain, not for the last time, that “The public sits in the middle and gasps at the absurdity of important reforms being killed in the cross-fire [between interests]” (1990 Congressional Quarterly Almanac, 195)

Indeed, that sentiment would serve well as a summary of the legislative action of 1991, which demonstrated how difficult it would be to enact major reform of Glass-Steagall given the complex web of interests involved and the thicket of semi-related and unrelated banking issues with which it was easy for opponents of reform to weigh down proposed legislation. The 1989 thrift bill had required the Administration to make within two years recommendations for the overhauling the deposit insurance system and banking regulation

more broadly. The resulting document, published in February, represented the most ambitious and comprehensive set of proposals made since the Depression. Among the recommendations were the sweeping away of laws on bank ownership, the establishment of full interstate banking and ending the division between banking, investment banking and insurance firms – three proposals that had been strongly advocated by the largest commercial banks for many years (1991 Congressional Quarterly Almanac, 75-76). However, largely for that reason, the report met strong opposition from small banks, insurance firms and consumer groups. The securities industry was more ambivalent: although it opposed several of the reports' proposals, it played a less prominent part in the debate than it would in future years. This was partly because of the weakened position of the industry in Congress, following the legislative battering it had received in 1990, and partly because several larger firms were beginning to see potential advantages in affiliation with commercial banks (1991 Congressional Quarterly Almanac, 76). This perhaps represents one of the early signs of the gradual changes in the extra-Congressional financial environment that ultimately made repeal of Glass-Steagall inevitable.

Nevertheless, the tortuous path that the reform legislation took through Congress before ultimately failing to change the Depression-era laws was to prefigure the failure of numerous attempts to pass a repeal over the next decade. Although the story is highly complicated, it is worth recounting at some length, as it demonstrates, first, the complexity of the interplay of interests that has dominated the history of financial services legislation over the last two decades and, second, the critical nature of non-roll call legislative events in the progress of financial services legislation.

Throughout the period before 1999 a crucial question facing Congressional leaders was how to bundle issues together into legislation that could secure the support of all three financial

services sub-sectors when each had both its own positive priorities and its 'red lines' that it would not permit its rivals to cross. In 1991 the question was which of these many priorities would be included in legislation to extend the powers of and refinance the Federal Deposit Insurance Corporation, which was almost certain to pass. Knowing that Glass-Steagall repeal would be much more difficult, key Congressional figures, including Representative Henry Gonzalez (D-TX) and Senator Donald Riegle (D-MI), Chairmen of the House and Senate Banking committees respectively, argued that it was important to resolve the deposit insurance issue before turning to banking powers (1991 Congressional Quarterly Almanac, 76). Nevertheless, the original strategy was to include as many of the Administration's proposals as possible in a single bill, HR 6. Versions of this legislation cleared markup in both House and Senate but were defeated on the House floor and never reached a floor vote in the Senate. Some lobbyists expressed frustration with the Administration's strategy, which they argued unnecessarily created conflict within the commercial banking lobby by tying together the interstate branching issue, strongly opposed by smaller banks, and extending banks' insurance powers, strongly supported by large ones (1991 Congressional Quarterly Almanac, 86).

In May, under pressure from Charles Schumer (D-NY) and Doug Barnard (D-GA), influential members of the House Banking Committee, Gonzalez agreed to adopt a two-bill strategy: a broad bill dealing with the full scope of issues highlighted by the administration and a narrow bill covering the deposit issue only, to fall back on if the first bill could not be agreed. In May, the committee approved both bills, HR 6 and HR 2094. The broad bill would have allowed banks to engage in securities activities, non-bank companies to own banks (which would have allowed affiliation with and provision of insurance services) and nearly unrestricted operation across state lines. During the mark up held by the Financial Institutions subcommittee of the Banking Committee in May, big banks "won nearly every issue they

contested”, according to CQ Weekly, including expansion of their securities and interstate banking powers (1991 Congressional Quarterly Almanac, 84). Moreover, Paul Kanjorski (D-PA) successfully brought an amendment effectively exempting large banks from the anti-redlining provisions of the 1977 Community Reinvestment Act. Consequently, when the full Banking committee voted 31-20 in June to send a substantially unchanged bill to the floor (HR 6) it represented a wholesale change in banking policy.

Meanwhile, in another demonstration of the proliferation of veto points within Congress, the Senate Banking Committee was working on similar bill (S 543), which was published on July 16. It fell far short of both Administration proposals and House bill in scope, with much stricter limits on non-bank ownership of financial institutions and on interstate branching. Unsurprisingly, then, the Senate bill was strongly opposed by those groups whose interests had been best reflected in Banking Committee bill – principally the large commercial banks. Senator Riegle wanted the bill marked up before the summer recess and, after intense negotiations with Jake Garn (R-UT), the committee's Ranking Member, he essentially traded continued prohibition of non-bank ownership of banks for expansion of banks' securities powers. The marked-up bill, finished on August 2, allowed state-level opt-outs from interstate branching and limited securities powers for banks, as well as the essential deposit insurance reform.

The twin problems facing the House bill were that, first, the bill was sufficiently broad that several committees made jurisdictional claims and, second, the large commercial banks had so dominated the Banking Committee markup that other interest groups were determined to influence the bill's content before passage. To see off dissent on the floor, House Speaker Tom Foley agreed to allow Agriculture, Energy & Commerce, Judiciary and Ways & Means to review and amend HR 6 (1991 Congressional Quarterly Almanac, 86). The self-styled

“Main Street Coalition” of small banks, securities firms, insurance firms and consumer groups hoped to win concessions against expansion of bank powers in Commerce committee and against interstate banking in Judiciary and Agriculture. John Dingell (D-MI), Chair of the House Commerce Committee, was a strong supporter of the securities industry and consequently a vocal opponent of expansion of bank powers into securities and insurance. Similarly, Edward Markey (D-MA), chair of the Commerce subcommittee on Finance, held hearings with Ralph Nader, the consumer advocate, and Edwin Gray, a former S&L regulator, to denounce the bank expansion powers included in the bill (ibid). Much of the bill's effect was entirely reversed by revisions made by Commerce: Markey's Finance subcommittee approved language that severely restricted banks' securities powers and non-banks ownership rights, while the Competitiveness subcommittee approved language to limit banks' right of entry into insurance. The full committee backed both subcommittee amendments, leaving the Banking Committee's bill in tatters. Furthermore, the Agriculture committee, meeting September 25, expressed concerns that full interstate banking might reduce competition in heavily agricultural regions and so reduce credit availability for farmers. It passed an amendment to make federal regulators consider the lending operations of banks operating across state lines to ensure credit was available in rural areas, a provision strongly opposed by the banks.

Following amendments from the four committees, House Banking Chair Gonzalez met with his fellow Democrats on the committee to decide whether to press forward with HR 6, which Gonzalez now thought was unnecessarily broad and would fail to deal adequately with the key issue of the deposit insurance fund. However, a majority of Banking Committee Democrats joined with House Republicans to push the broad bill to the floor. In an attempt to rescue the bill, Gonzalez negotiated an agreement with Dingell in October to preserve much of the language inserted by Commerce, but reaffirm that the Banking Committee enjoyed

primary jurisdiction. In the compromise bill, non-banks would not be allowed to own banks and both the securities and insurance powers of banks would be severely limited. In return, Dingell dropped demands for more regulation of banks by the SEC and his own committee's claims of jurisdiction (1991 Congressional Quarterly Almanac, 89). In general, in a reversal of the position in the summer, these increasingly labyrinthine developments pleased smaller banks and securities and insurance firms at the expense of the larger commercial banks. The Administration, however, was unhappy and Treasury Secretary Brady became increasingly willing to countenance dropping interstate branching reform as the cost of passing a deposit insurance bill (1991 Congressional Quarterly Almanac, 90).

The prospects for the bill's passage became even dimmer in late October, when President Bush issued a veto threat in response to the watering down of bank powers entailed by the Gonzalez-Dingell deal. The Rules committee, however, refused to budge and replaced the Banking Committee version of the bank affiliation title with the language agreed by Gonzalez and Dingell. Moreover, in a major blow to the commercial banks, Rules refused to allow consideration of the original Banking Committee language on the floor. Rules also scrapped the Agriculture interstate branching amendment. The rule passed, 210 votes to 208 on October 30. The following day saw a crucial vote on an amendment introduced by Barnard, the strongest advocate of expanding bank powers into securities and insurance, to strike the Gonzalez-Dingell language. The Amendment was rejected, 200 votes to 216, with much defection across party lines. On November 4, when the final passage vote was taken, HR 6 was defeated 89 votes to 234. In a striking example of how far interest group loyalty cut across both party and committee lines, just twelve of the 31 Democrats on the House Banking Committee and 17 of the 27 Democrats on Commerce supported the bill (CQ Weekly 1991, 3334).

The failure of HR 6 prompted the Administration to give up on securities powers and non-bank ownership, though Secretary Brady still hoped to include measures on interstate branching. HR 2094 was introduced by the House Banking Committee on November 6. It was a very narrow bill, including only a \$30 billion credit line for the FDIC, provisions for regulators to close failing but not yet failed banks and ending the “too big to fail” situation in which FDIC would intervene to protect the investments of uninsured depositors. Wylie, the committee's Ranking Member, accepted this draft, but was determined to seek an interstate banking provision on the floor. Gonzalez, however, whose priority had always been the replenishment of the insurance fund, still wanted the narrowest possible bill. Even with the new, less ambitious bill the main interest group cleavage remained between those who wanted to see banks broaden their businesses and those who sought to protect the securities and insurance industries. Once again, however, the diversity of interests at stake complicated matters: many Republicans wanted interstate branching as the price of their support, but this alienated supporters of the insurance industry, who feared nationwide banking would naturally encroach on the insurance market. To ensure the votes of such representatives, leaders would have to make concessions on insurance, but this in turn prompted demands from champions of the securities firms. One compromise amendment was proposed by Wylie: it would permit interstate branching, but place new restrictions on banks' insurance and real estate brokerage powers. The amendment passed 210-208 on November 14, but had the effect of creating an unusual coalition against the bill: banks, consumer groups and securities firms all now wanted it to fail, while insurance firms supported it (1991 Congressional Quarterly Almanac, 91-92). HR 2094 was narrowly defeated 191-227 on November 14, despite intense whipping by the Democratic leadership and appeals from President Bush to Republicans.

Finally, the Banking Committee introduced HR 3768, a very narrow bill that included only provisions for funding the deposit insurance fund. Bruised by the two previous failures, the Rules committee allowed no amendments to the bill and it passed overwhelmingly, 344-84 on November 21. On November 21, two hours after House passed HR 3768, Senate passes S 543 by voice vote, despite fewer than 10 Senators being present on the floor. The bill was quite different from the version previously approved by the Senate Banking Committee, as amendments had stripped out any substantial repeal of Glass-Steagall, though there was mild relaxation of banks' insurance powers in some states and a provision to allow states to opt-in to interstate branching.

The resultant conference was a long overnight meeting, between November 26 and 27, and its report was adopted rapidly by both House and Senate. Initially it seemed that the House's rejection of interstate branching might be major point of contention, but William Taylor, the FDIC chair, intervened powerfully to argue that it was now much more important to replenish the insurance fund and reform deposit insurance than to achieve major banking reform (1991 Congressional Quarterly Almanac, 97). The conference responded by dropping all interstate banking provisions from the bill, leaving it dedicated purely to nevertheless substantial task of overhauling the deposit insurance system. The events of 1991 are perhaps the clearest exemplars in this first period of, first, the intensity of the struggle between the three interest groups and, second, the plethora of options available to opponents of reform, in the shape of multiple committees claiming jurisdiction, multiple opportunities to edit the bill and the multiple alliances that could be constructed and arrayed against legislation depending on its content.

It is perhaps unsurprising, then, that after the exhausting legislative struggles of 1991, neither the Bush Administration nor the financial services industry had great appetite for further

extensive battles in 1992. Instead, a large number of apparently less controversial bills were introduced, covering several of the industry's less divisive priorities.

First, by the spring of 1992, the need to provide additional funding for the Resolution Trust Corporation (RTC), the body tasked with taking over and reselling failed thrifts, had assumed a new urgency as the scale of the problem became clear and the Administration, whose appeals for funding in 1991 had been lost in the furor surrounding banking reform, (1992 CQ Almanac, 115) was unwilling to see a repeat of the previous session. Nevertheless, efforts to secure additional RTC funding fell victim to conflict not between financial services interest groups, but between legislators whose local thrifts remained solvent and those whose constituent S&Ls were seeking rescue. This division ensured there was no unified lobbying drive on the part of the S&L industry and, while the Senate passed a RTC funding bill, S 2842, in late March, the House rejected a similar measure, HR 4704, 125 votes to 298, on April 1.

Second, Congress witnessed a further demonstration of the crucial importance of conflict between rival committees as it failed to pass a bill, HR 3927, that would have greatly increased federal regulation of the market in government bonds, which was largely unregulated in 1992. Following a 1991 scandal in which the Salomon Brothers investment bank was found to have rigged bidding in a government bond auction to corner a large proportion of the secondary market, in January 1992, the Treasury, the Federal Reserve, the New York Fed and the SEC proposed new regulation to hamper fraud. As in 1991, both the House Commerce and the House Banking Committee claimed jurisdiction. However, the Treasury strongly criticized the bill that emerged from a markup held by Commerce's Finance subcommittee in May as being overly restrictive and too costly for bond traders (1992 Congressional Quarterly Almanac, 116). Essentially, the bill, HR 3927, proposed new

authority for the SEC to demand transaction information from bond traders and intervene when price information for bonds in the secondary market was incomplete. Commerce approved HR 3927 by voice vote and without debate on June 2. On August 6, however, the Banking Committee intervened, arguing the Treasury line that the Commerce bill gave SEC excessively sweeping powers – and that it expanded the jurisdiction of Commerce too broadly. Consequently, the Banking Committee approved an amendment to leave securities enforcement to the Federal Reserve and FDIC. When the bill came to the floor, it left the Commerce language intact, prompting a proxy fight between the securities industry, the Federal Reserve and the Treasury (represented by the Banking Committee) on one side, and the SEC (represented by Commerce) on the other (1992 Congressional Quarterly Almanac, 122). The issue was the subject of intense lobbying by the securities industry and the Banking Committee gained the upper hand. The bill was defeated 124 votes to 279 on September 16.

The third major legislative effort concerned the creation of a new regulator for Fannie Mae and Freddie Mac, the giant government-sponsored enterprises (GSEs) that dominated the national secondary mortgage market. Separate bills, HR 2900 and S 2733, were drafted by the House and Senate Banking committees, with the Senate version imposing much stricter capital requirements on the two firms. Fannie Mae strongly opposed the bill, but – in a striking illustration of the power of public scrutiny – was forced to adopt a much less strident public stance after a wave of bad publicity relating to its lobbying tactics (CQ Weekly 1992, 3138). The version adopted by conference represented a compromise between the two bills but included, at the insistence of Senator Phil Gramm (R-TX), language to the effect that the GSEs enjoyed neither a direct nor an indirect government guarantee.

Fourth, both chambers agreed a relatively uncontroversial “regulatory relief” package for commercial banks, which was added to HR 5334, the federal housing reauthorization bill, in

October. It included measures to allow larger real estate loans without certified appraisals, greater discretion for regulators to allow thrifts longer to sell their real estate subsidiaries and restrictions on regulators' powers to cap executive pay at under-capitalized institutions. The American Bankers Association praised the package, but noted it would pursue a “broader relief agenda”, more like that attempted in 1991, the following year (1992 Congressional Quarterly Almanac, 120)

Finally, Congress passed a reauthorization of the Commodity Futures Trading Commission, an issue that had been the subject of much debate in the previous two sessions. HR 707 language that had been drafted the previous year and easily cleared both chambers and conference in October. The bill closed loopholes that had facilitated the abuses uncovered in 1989, particularly the problem of traders making trades on their own accounts simultaneously with trades on their clients' behalf, which allowed unscrupulous traders to profit at their clients' expense from the resulting price movements. More significant, perhaps, in long run was the provision drafted by Phil Gramm to exempt trade in exotic financial instruments, such as credit default swaps, from the regulation covering conventional commodities (CQ Weekly 1992, 3456).

In addition, the banks successfully killed a bill pushed by consumer groups to make it easier for individuals to obtain and correct inaccuracies in their credit report information, HR 3596. The banking lobby insisted that a provision to make federal regulation of credit reporting preempt state laws, many of which were more stringent than the proposed federal measures, be added to the bill. The House Banking Committee's Consumer Affairs subcommittee added an amendment to this effect – and one removing banks' obligation to provide free credit reports – during a markup on March 5. When the legislation reached the House floor in October, Estaban Torres (D-CA), the bill's original sponsor, threatened to pull the bill unless

the Consumer Affairs subcommittee language was excised. The amendment to strike the relevant amendments failed 203 votes to 207 and the bill was considered no further.

Although January 1993 saw a new president take office, the White House's financial services policy priorities were little changed. The primary goal remained achieving a new round of funding for the Resolution Trust Corporation and, secondarily, the new Administration was as committed to banking reform as its predecessor, with the establishment of full interstate banking a priority. However, as in previous efforts, the attempt to secure the latter ran into insurmountable difficulties because of the conflicting interests of banks, securities firms and insurance companies.

On its first priority, however, the Administration enjoyed an early success. In November 1993, the House and Senate cleared a conference report on bill making a further – and, the Administration hoped, final – installment of funding to the RTC worth \$18.3 billion, though this was considerably less than the \$45 billion that the administration had requested initially. The bill faced difficult passage because of continuing bad publicity about management of the RTC and the bonuses paid to its administrators. Although the thrift industry actively lobbied for the bill, few Republicans were willing to back the Administration and be associated with a major taxpayer-funded bailout. Nevertheless, the bill passed the House narrowly on September 14, 214 votes to 208, having already been cleared by the Senate, 61 votes to 35 in May.

There was, however, no progress on interstate branching, despite the Administration's endorsement. In a relatively early demonstration of the extent to which Congress was being overtaken by decisions outside its control, state-level regulation had reached the stage where almost all states permitted bank holding companies to own separate banks across state lines, but the opening of branches by out-of-state banks was still generally illegal. Large banks

argued that reform would allow greater efficiency and profitability, but consumer groups and smaller banks expressed anxiety that smaller banks would be driven out of business, with the effect of reducing lending in poorer areas (1993 Congressional Quarterly Almanac, 161). Moreover, the effort attracted a powerful opponent in the shape of the insurance lobby, which saw interstate branching as inextricably linked to the banks' gradually expanding insurance powers: nationwide banks with nationally recognized brands would be the most dangerous entrants into the market in the event of the relaxation of Glass-Steagall's restrictions. However, the largest banks were unwilling to support an interstate branching bill that curbed their ability, incrementally acquired via judicial and regulatory decisions, to sell insurance. Consequently attempts in the Senate Banking Committee to mark up a bill on November 18 failed when Republicans sympathetic to the banking lobby boycotted the mark-up in response to a threat by Chris Dodd (D-CT) to attach an insurance-curbing amendment to any interstate branching bill.

In a further victory for the insurance lobby, two different bills concerning insurance red-lining, the practice to denying cover to entire communities, stalled because of lack of action in the Senate. HR 1188 and HR 1257, pushed by the House Banking Committee and the Commerce Committee respectively, saw no accompanying bills marked up by any Senate Committee. The Commerce bill was less stringent, requiring insurance firms to provide sales information at the zip-code level to allow assessment of how far "red-lining" was taking place. The Banking Committee bill required the same data reported at the census tract level, which met powerful opposition as prohibitively expensive from the insurance lobby. The insurance lobby successfully pushed several friendly amendments through the Commerce committee, but the Banking Committee was less receptive, being dominated by liberal, urban Democrats (1993 Congressional Quarterly Almanac, 168). However, with no prospect of action in the Senate, neither bill made it the floor.

Much of the rest of legislative activity in 1993 involved attempts to clear bills that had been drafted but stalled in previous sessions. There was, for example, major legislation to broaden the regulatory powers of the SEC with respect to the market in government bonds, which had failed in 1992. The Senate Banking Committee in May approved a bill that was substantially identical to the one passed in 1992, which commissioned federal banking regulators to write new rules to cover banks' transactions in government securities and asked the National Association of Securities Dealers to issue rules for securities brokers, subject to approval by the SEC. The bill resolved the struggle that scuppered the 1992 bill by maintaining banking regulators' oversight of banks that dealt in government securities, while giving SEC authority over brokers who dealt in the primary market. The bill passed the Senate by voice vote in late July and by the House in October. Minor differences between the two chambers' bills were reconciled without conference and both House and Senate approved identical bills in November. However, Congress again failed to pass legislation similar to that considered in 1992 to make it easier for consumers to correct faulty credit reports and grant them easier access to their records. Both the Senate and House Banking subcommittees on Consumer Credit approved version of the bill but, following strong opposition from banking lobby, neither reached floor debate (1993 Congressional Quarterly Almanac, 169).

The 1994 session marks a dividing line in the recent congressional history of the financial services industry, for with the passage of full interstate branching legislation it became increasingly difficult to see how Glass-Steagall's restrictions could remain in place permanently. Once again, it was decisions about how to bundle issues together into bills and the consequent impact on interest group coalitions that determined the success of the overhaul, rather than the content of the bill itself, which was substantially identical to that attempted in 1993.

Large banks had been pushing for full interstate branching legislation for years, as previously doing business across state lines, while possible, required establishing entirely separate – and separately capitalized – banks in each state. The commercial banking lobby argued that it would be able to make major cost savings that could be passed onto consumers if full interstate branching were allowed. However, consumer groups and smaller banks feared the legislation would usher in greater concentration of banking and, consequently, the potential for lower levels of lending in poorer and rural areas (1992 Congressional Quarterly Almanac, 94) The major breakthrough in terms of interest group competition, therefore, was the pressure exerted by the Administration to consider the bill, HR 3841, alongside a bill, HR 3474, that was designed to subsidize community lending institutions. Although the insurance lobby again made clear that it strongly opposed interstate branching without explicit curbs on banks insurance powers, its supporters in Congress found themselves under intense pressure from the President to separate the two issue. The crucial turning point occurred in February 1994, when Chris Dodd (D-CT), in 1993 the insurance lobby's most vocal champion, announced he would no longer insist that the insurance issue be resolved in the bill, which cleared the way for its passage. In a statement he noted that “[w]hile I continue to support legislation to rationalize bank sales of insurance, I do not want to hold up interstate branching [any longer]” (CQ Weekly 1994, 230).

The bill as drafted by the House Banking Committee in February provided for the removal of the remaining barriers to purchases of out-of-state banks within a year and permitted banks to merge their various state-based subsidiaries into a single bank by 1997. Smaller banks did win one major concession, however: “de novo” branching – the opening of new branches across state lines without first acquiring a bank in the state – would be permitted only in states that agreed to opt-in to the system (1994 Congressional Quarterly Almanac, 95). The bill passed both House Banking Committee subcommittee on Financial Institutions on,

February 3, and the full Banking Committee, on March 9, overwhelmingly. Furthermore, the Banking Committee rejected two amendments backed by consumer groups but opposed by the banking lobby: an amendment to compel banks to make loans in poorer neighborhoods was defeated 17-34, while one requiring banks to provide low cost checking accounts fell 16-34. Following intense lobbying by both the Administration and commercial banks, HR 3841 was considered under a closed rule by the full House on March 22 and adopted by voice vote. The bill was then rapidly shepherded through the Senate. The Senate Banking Committee approved S 1963, an almost identical bill, in late February by voice vote; the full Senate passed it by voice vote in April. By mid-September, both chambers had approved the conference report overwhelmingly and the bill was signed into law.

As suggested by the Administration, the Senate simultaneously took up HR 3474, the community banking bill the House had passed in 1993, and approved it by voice vote on March 17. As well as making \$400 million in subsidies available to community lenders, the bill also provided some regulatory relief for commercial banks, such as a lengthening the period over which well-capitalized banks would be subject to inspection under the Community Reinvestment Act and the streamlining of duplicate regulations across agencies.

Commercial banks were also boosted by the failure to pass the Fair Credit Reporting Act, a priority of consumer groups that had been held up for several years. A mark-up in the House Banking Committee in March considerably weakened the bill from the point-of-view of consumer groups by stripping out language to strengthen consumer rights when erroneous credit information was shared between affiliated companies and approving amendments that allowed greater sharing of credit information among affiliates. Although some consumer-friendly amendments, such as preserving the right to a free copy of a credit report, did make it through committee, in yet another demonstration of the proliferation of opportunities for

interest groups to influence legislation, the bill that eventually came to the House floor excluded this provision. Nevertheless, despite the considerable dilution of its impact and its passage in both House and Senate by voice vote, the bill never became law, as Phil Gramm (R-TX) placed a hold on the bill in the last few days of the session (1994 Congressional Quarterly Almanac, 119).

The 1994 session also saw Congress again reiterate its opposition to the regulation of complex financial instruments. The General Accounting Office (GAO) published a report in early 1994 that recommended Congress consider legislation to cover gaps in the regulation of derivatives, but no consensus on how to approach the problem emerged from either Banking Committee, so no legislation was drafted. The GAO noted the particular problem that insurance firms, which generally were subject to weak or non-existent capital requirements, were responsible for much derivative activity (CQ Weekly 1994, 1279). The collapse of AIG, the country's largest insurer, in 2008, under the weight of its enormous derivatives exposure, arguably makes the GAO's anxiety remarkably prescient. Nevertheless, the issue attracted little publicity and died quietly before the end of the session.

As the 1994 session ended, then, it seemed that the commercial banks, although victorious in the struggle for true interstate branching, had secured little progress in Congress toward repeal of Glass-Steagall. The multiplicity of means of stalling or killing legislation in both chambers had allowed their opponents, the securities and insurance firms, to prevent the passage of major legislation to change the status quo. The lobbies that sought to preserve Glass-Steagall were able to exploit the competing jurisdictional claims of several committees and intra-party conflict to prevent radical change. However, the years since 1989 had already provided signs of the changing environment outside Congress: some securities firms had started to consider the potential advantages of alliances with major commercial banks and the

commercial banks were increasingly confident that friendly decisions by regulators and the courts would allow them to expand their businesses without a total repeal. In the period that followed, Congress lost its ascendancy and these extra-legislative developments began to force its hand – and to weaken markedly the hands held by the opponents of major reform.

### **Congress loses control: 1995-1999**

If in retrospect, however, 1995 marks the beginning of the slide towards the inevitability of Glass-Steagall repeal, it perhaps did not seem so to contemporary observers. It was not that in the years that followed conflict within Congress suddenly fell away; indeed, until 1998, each year saw fresh and determined opposition by insurance lobbyists in Congress. Rather, it was that developments outside Congress began to dictate the agenda. With the Federal Reserve exercising the discretion granted it under the Bank Holding Company Act to allow large commercial banks to engage in limited securities activity and with the banks increasingly confident that loopholes within the Act would allow them to sell insurance in certain circumstances, the industry was gradually liberalizing without Congress's intervention. This had several consequences, as will be clear in the account that follows. First, the commercial banks' bullishness in response to these developments left them increasingly unwilling to compromise with their rivals on legislative language, if they might achieve the same or better outcomes through the regulators and court decisions. Second, the ever more obvious ascendancy of the banks prompted some of the larger securities firms to perceive potential benefits in affiliating themselves with the banks' large capital and customer bases. Third, as liberalization steadily continued *de facto*, the insurance firms became increasingly willing to codify that reality *de jure* – believing that if they could not prevent the end of the Glass-Steagall era, they might at least achieve its dissolution on better terms. None of these developments happened overnight, but in the narrative that follows we see their gradual evolution and, eventually, their culmination in Glass-Steagall's final repeal in 1999.

As has been suggested, all this was not immediately apparent in 1995. Despite the Republican takeover of Congress in the 1994 elections and the strong desire of the new House Banking Committee Chair, Jim Leach (R-IA), to pass comprehensive banking reform, strong

opposition from insurance group interests once again caused an attempt to repeal Glass-Steagall to fail in 1995. As before, the crucial tension between banking and insurance interests was the issue of the insurance-selling powers of banks (1995 Congressional Quarterly Almanac, 2-79). Leach's bill, HR 1062, would have allowed banks to offer a broader range of financial services, including securities underwriting and brokerage, by forming financial services holding companies. A companion bill, HR 1858, provided for the repeal of multifarious consumer protection regulations that had accumulated over the previous two decades, such as certain reporting requirements of the Community Reinvestment Act (CRA) and parts of the Truth-in-Lending Act. In order to make the net effect of the legislation more palatable to the insurance industry, a measure to block the Office of the Comptroller of the Currency (OCC) from extending banks' insurance powers (one of the crucial extra-Congressional developments referred to above) was included in the bill. However, this provision ultimately derailed the bill, as the banking lobby withdrew support in objection to its presence. Although they stood to gain considerably from the bill's passage in most areas, commercial banks were willing to wait for the decision in a forthcoming Supreme Court case, *Barnett Bank vs. Nelson*, due to be handed down in early 1996, which they expected would confirm their right to sell insurance in small towns. Consequently, they were unwilling to make major concessions in the legislative arena to secure passage of a bill that might not even take them as far as the increasingly favorable status quo (*ibid*). Moreover, little impetus came from the Senate side, where Banking Chair Alfonse D'Amato insisted that there would be no move on Glass-Steagall repeal until the House succeeded in passing such a bill (*CQ Weekly* 1995, 1161).

It is worth re-emphasizing that the judicial erosion of Glass-Steagall that played a critical supporting role in the failure of banking reform in 1994 is illustrative of an important phenomenon in the political history of the financial services industry since 1989: it is not that

Congressional action ceased to be an important driver of national policy with respect to the industry, but rather that many of the crucial decisions about the extent and enforcement of regulation were made in the judicial or regulatory spheres, where much less data, both on decision-making and on interactions between the industry and government actors is available. For example, the insurance industry's emphasis on the powers of the Office of the Comptroller of the Currency (OCC) reflected dissatisfaction among insurance firms at that agency's use of its regulatory discretion, codified in a clause of the nineteenth-century National Banking Act, to permit banks in small towns to sell insurance (1995 Congressional Quarterly Almanac, 2-80). Similarly, as mentioned above, using provisions in existing law, the Federal Reserve had begun gradually to relax restrictions on which institutions could underwrite and sell securities, allowing commercial banks to perform these services through affiliates.

HR 1062 first passed the House Banking Committee on May 11, 38 votes to 6. At this stage, the bill was deliberately narrow and specifically made no attempt to disrupt the delicate balance between the powers of banks and insurance firms and so, in general, the large commercial banks were the bill's strongest supporters, while securities firms were concerned about the prospect of being brought under the Federal Reserve's regulatory jurisdiction. The insurance industry, however, was strongly opposed to the bill. Moreover, while the insurance lobby had previously been content to allow such bills to fail, either in committee or on the House floor, the series of regulatory and judicial decisions that had gone against insurance interests meant that the lobby now saw the need for legislative clarification and strengthening of the restrictions on banks insurance powers (*ibid*). On this issue there was potential for conflict between the House Banking and Commerce committees, which had joint jurisdiction over the bill. However, decisive intervention from the Republican House leadership prevented such conflict from escalating when on June 12 Newt Gingrich and other leaders

announced a compromise that would bar further relaxation of insurance restrictions on banks but keep existing rulings by the OCC intact (CQ Weekly 1995, 1721). To placate the banks, HR 1062 would be merged with the regulatory relief bill, HR 1858, and debated on the floor under a closed rule to prevent amendments disrupting the precariously balanced status quo. However, despite consulting widely, the House leadership found that a newly confident American Banking Association strongly opposed the OCC compromise and the lobby withdrew its support (1995 Congressional Quarterly Almanac, 2-80). The bill's regulatory relief provisions also ran into trouble at each stage of the legislative process, with consumer groups protesting mark-ups by the Banking Committee and the Administration severely criticizing measures that would prevent enforcement of the CRA's fair lending regulations (1995 Congressional Quarterly Almanac, 2-82).

On June 29, the House Banking Committee reported out a version of the bill that included parts of the leadership compromise, but also reversed the leadership's measure that had been drafted to prevent banks affiliating with insurance agents. According to Congressional Quarterly, the problem was that the Republican leadership had miscalculated the commercial banks' appetite for regulatory relief, believing that the banks would tolerate a moratorium on further extension of their insurance powers in return for deregulation in other areas. On the contrary, both banks and securities firms, temporarily united against insurance companies, pushed hard for an amendment that would allow them to expand into insurance services: the result was the committee's acceptance of such an amendment by 36 votes to 12 (CQ Weekly 1995, 1909). Though this version of the bill passed the full committee by 27 votes to 23, once the insurance lobby announced its strong opposition, Gingrich and other Republican leaders became extremely nervous about the bill's prospects on the floor and so, in an attempt to avoid a protracted fight in the chamber, delayed floor debate on the bill until the fall. Worse for the bill's chances, the Administration announced its strong opposition to the bill, largely

because of the dilution of the CRA, and Treasury Secretary Robert Rubin recommended that President Clinton veto the legislation, should it pass in the form reported out by the Banking Committee (CQ Weekly 1995, 2630).

The bill remained the subject of much wrangling over the summer and in late September Leach announced a compromise that would see the OCC moratorium expire after five years and the amendment allowing banks to affiliate with insurance firms excised. Moreover, in an attempt to placate the administration, some of the dilution of the CRA was dropped. Debate on the revised bill, now HR 2520, was scheduled for late October, but it soon became apparent, first, that the Republicans could not secure agreement among their members on the Rules committee and, second, that the commercial banking lobby would oppose the bill because of the restrictions on the OCC's discretion. Consequently, the House leadership decided to pull the bill rather than, in Dick Armey's words, having "to pick between our friends" in both lobbies (CQ Weekly 1995, 3193). The discretionary powers of the regulators had never been so clearly in the forefront of the Congressional debate, but this change in the terms of the discussion was an implicit recognition of how profoundly the industry was changing – with or without Congress's intervention.

Although the attempt once again to pass substantial banking reform was by far the most important piece of financial-services legislation of 1995, there were other bills introduced. A bill that proposed to shore up the under-capitalized Savings Association Insurance Fund (SAIF), which insured consumer deposits in thrifts, by making banks share the financing of the fund with thrifts was attached to the budget reconciliation bill. However, when President Clinton vetoed the bill, the attached proposal also died and was not reintroduced independently. This was to create great urgency to pass a SAIF recapitalization bill in the

1996 session, with important consequences for the continuing efforts to reform Glass-Steagall.

In the event, Congress succeeded in passing a Savings Association Insurance Fund (SAIF) capitalization bill in 1996, but the story with respect to Glass-Steagall repeal was very much business as usual: once again supporters of banking interests made attempts to overturn the Depression-era statute, but as in previous years, these efforts were blocked by the opposition of the insurance lobby. However, the SAIF bill that did become law illuminates many of the important trends in financial services-related legislation since 1989, above all the speed and determination of the banking lobby and the pivotal role that the bundling of different provisions into bills has played in determining legislation's prospects for passage.

Most industry observers and politicians on both sides of the aisle agreed that SAIF needed re-capitalizing in 1996, as the fund had reached sufficiently low levels that even one or two thrift bankruptcies could lead to the need for a taxpayer bailout. However, commercial banks were strongly opposed to the legislative strategy that had been pursued in 1995, which would have required banks to pay additional insurance premiums on deposits to make up the shortfall in SAIF (1996 Congressional Quarterly Almanac, 2-43). Nevertheless, in April House Republican leaders decided to attach the SAIF bill to HR 3019, the FY 1996 appropriations bill. The ABA responded decisively and found almost thirty supporters in the House to threaten publicly to vote against the full appropriations bill if the SAIF provisions were not removed (CQ Weekly 1996, 984). House leaders then withdrew the provisions, but a few days later on April 23 attempted to insert the SAIF plan into the one-day continuing resolution that was needed to keep the government running while the appropriations bill was debated. However, in a remarkable episode, members of the Rules committee defied both the White House and the House Republican leadership and agreed an amendment to excise the

SAIF plan from the continuing resolution before it came to the floor (1996 Congressional Quarterly Almanac, 2-45).

Work began again on a new SAIF plan over the summer, but it was clear that the primary difficulty facing the legislation was how to overcome the procedural hurdles that had so far blocked its passage. In Congressional Quarterly's words, it was a piece of legislation in search of a vehicle (1996 Congressional Quarterly Almanac, 2-45). Leach's favored approach was to include the plan in a rewrite of HR 1858, the regulatory relief bill that had stumbled in the previous session. Commercial banks, however, were still unhappy with the balance of changes in HR 1858, particularly with respect to the regulation of those insurance powers that they had won via regulatory and judicial decisions. Negotiations were held in both House and Senate to try to reach a compromise that would be acceptable to both the banking and insurance lobbies, but these unraveled on September 16, when White House Chief-of-Staff Leon Panetta suggested an alternative to Republican leaders: rather than pursue a stand-alone bill, the Administration would allow the revenue raised to make up the SAIF shortfall to be used to offset around \$3 billion of the Administration's spending plans (CQ Weekly 1996, 2657). This suggestion, embraced by both parties, prompted desperate attempts by the banking and insurance lobbies to attach as much favorable legislation as possible to the omnibus spending bill. For example, insurance firms fought, ultimately unsuccessfully, to include a regulation that would have required bank employees to gain separate insurance licenses before being permitted to sell insurance. The Administration pushed hard to block as much of the planned reduction of consumer protection regulation as possible and indeed won major concessions (1996 Congressional Almanac 2-46). However, the final omnibus spending bill did reduce banks' exposure to environmental regulations, permitted banks to use consumer credit information for marketing purposes and repealed the civil liabilities associated with violation of the Truth-in-Lending Act. The banking lobby then agreed to

support the bill and the House and Senate passed the bill overwhelmingly (370 votes to 37 in the House; by voice vote in the Senate) in the final week of September.

It was not only developments from outside the Capitol that weakened Congressional leadership on the Glass-Steagall issue: it was also increasing fatigue among leaders in the House, who had seen the issue surface and flounder for many years and had noted its potential to create ugly intra-party divisions. The unsuccessful attempt to revive HR 2520 from the previous session, which would have effectively repealed Glass-Steagall, provides a clear demonstration of the problem. Under Leach's leadership the Banking Committee spent much of early 1996 redrafting the bill and attempting to find a compromise that could satisfy the competing interests within the financial services industry. However, Leach faced opposition from both his fellow Republicans on the Banking Committee and from his own leadership, who were unwilling to expend political capital on what was expected to be a bitter floor fight. The Supreme Court's decision in *Barnett Bank vs. Nelson*, the anticipation of which had strengthened the commercial banks' resolve in the previous session, was delivered in March 1996 and, as expected, affirmed banks' right, under a loophole in the eighty-year-old National Banking Act, to sell insurance in small towns without regulatory interference (1996 Congressional Quarterly Almanac, 2-53). This provided even stronger incentives for banks to act to block any legislative attempt to restrict their insurance powers or to reduce the discretion of the bank-friendly Office of the Comptroller of the Currency.

Consequently, Leach's initial redraft, published in May and now openly following the Court's lead, was much friendlier to banks' interests than the 1995 version had been: the OCC moratorium was to be dropped, the decision in the *Barnett Bank* case was to be formally codified in law and banks were to be allowed to form holding companies to affiliate with insurance firms. The two major banking lobby groups – the Bankers' Roundtable and the

American Bankers Association – announced that with these provisions intact they could support Leach's bill. Leach was optimistic when the insurance lobby, led by the Independent Insurance Agents of America, told him it would not oppose the bill if it were to include a three-year delay in the enactment of the bank-insurance affiliation clause to allow states to opt out of its provisions, which surely reflects the insurance industry's growing resignation that the battle could not be won, at least not at the federal level (CQ Weekly 1996, 1455). However, Congressional Quarterly Weekly reported in May that lobbyists, particularly those representing insurance interests, were privately criticizing the bill in conversations with House leaders in both parties (ibid). When Leach brought the revised plan before the Banking committee, the delicately crafted agreement that he believed he had won collapsed: senior members of both parties announced they would vote against the bill and over eighty amendments were introduced. As in 1995, Republican House leaders were unwilling to schedule floor time without an assurance of easy passage, which clearly could no longer be made, and so the bill once again died (1996 Congressional Quarterly Almanac, 2-53).

However, while the failure of the bill represented an incomplete but nevertheless substantial victory for the banks, who were increasingly satisfied with the status quo, the insurance lobby was gravely disappointed to have secured no protection in the face of the commercial banks' expanded powers. The result was an extraordinary episode that highlights the extent to which some of the most striking exertions of corporate influence are possible only when very little public attention is paid to them. On July 16, Gerald Solomon, Chair of the Rules Committee and one of the House's strongest supporters of the insurance lobby, attempted to revive the OCC moratorium by adding an opaque amendment to HR 3756, the FY 1997 Treasury-Postal Service appropriations bill, that would have required the Financial Management Service, a little-known office of the Treasury Department, to cut funding to the OCC if it attempted to expand banks' insurance powers further. According to Congressional Quarterly Weekly,

Solomon's strategy was apparently to include the amendment unnoticed and have it approved by voice vote that evening before the banking lobby could mount a determined opposition (CQ Weekly 1996, 2028). However, on July 17 the amendment came to the banks' attention and, assisted by Treasury Secretary Robert Rubin, they organized an overwhelming backlash against the "secret" amendment: that evening, the House rejected the amendment 107 votes to 312 (ibid). Not only was the plan soundly defeated, but several observers argued that the method and manner of the attempt had dramatically weakened the influence of the insurance lobby. Doug Bereuter, a senior Republican member of the House Banking Committee, afterwards said that by embarking on such a "procedurally questionable" course of action, the insurance industry "were hurt by this vote, dramatically" and "would have been better off if it hadn't come up, they were beat so badly" (1996 Congressional Quarterly Almanac, 2-53). It was a moment that perhaps summarizes the direction of the insurance industry's fortunes in the summer of 1996.

With Congress once again failing to secure meaningful reform of Glass-Steagall, further ground was ceded to the discretion of regulators. At the end of July, in response to a petition from the ABA, the Federal Reserve proposed new rules that re-interpreted Glass-Steagall's provisions against securities sales and underwriting by commercial banks to mean that bank holding companies could affiliate with firms who derived up to a quarter of their revenue from securities activities (1996 Congressional Quarterly Almanac, 2-54). The previous limit had been one tenth of the affiliate's revenue. These regulations were approved in December and importantly confirmed the shift in the balance of power in the industry. Where previously securities firms had occasionally allied with commercial banks to push for Glass-Steagall reform in the hope of winning the right to provide banking services, these regulatory changes allowed commercial banks access to the securities businesses without any corresponding *quid pro quo* for securities firms. Consequently, future efforts at legislative reform would be more

likely to see commercial banks and securities firms aligned against each other. Moreover, in November, the OCC also pushed forward with bank-friendly regulatory reinterpretations, most notably allowing banks to apply for their subsidiaries and affiliates to engage in a broad range of non-banking activities, including – conceivably, though not explicitly – insurance sales (CQ Weekly 1996, 3357). Insurance and securities firms immediately recognized the threat, which set the stage for renewed conflict into the next Congress.

Overall, 1996 was a highly satisfactory year for the banks, who also managed to kill in committee a bill, HR 3727, which would have required the on-screen display of surcharges for ATM usage, a measure the industry strongly opposed. It was not, of course, that other sections of the financial services industry achieved none of their legislative goals. The securities industry, for example, strongly advocated and achieved an overhaul and streamlining of securities regulation in the shape of HR 3005, which was approved 407-8 in the House and by voice vote in the Senate in the summer. However, in this case the main competing lobby group was a collection of state securities regulators, not other groups within the financial services industry (1996 Congressional Quarterly Almanac, 2-55). In 1996, whenever the banks took on their securities or insurance counterparts, they won.

Indeed, in many respects, the story of financial services legislation in 1997 very much carries a sense of *déjà vu*: once again, legislators with ties to the banking industry pushed for wholesale reform of Glass-Steagall and, once again, the efforts of the insurance lobby and disagreements between rival committees effectively blocked the legislation. Increasingly, however, the banks were content with the status quo, as the *Barnett* decision, the apparently pro-bank inclinations of the OCC and the Federal Reserve and the Administration's apparent indifference to enforcing many Glass-Steagall's provisions seemed to reduce the need for new legislation (1997 Congressional Quarterly Almanac, 2-73). Given this situation, the almost

complete lack of action from Alfonse D'Amato's Banking Committee in the Senate and the desire to avoid forcing politically uncomfortable votes, Republican leaders in the House had little incentive to encourage a replay of previous years' struggles.

Nevertheless, the Glass-Steagall issue resurfaced following the publication in June 1997 of a Treasury proposal for a financial services overhaul. The report recommended that banks be permitted to offer the full range of financial services, including securities underwriting and insurance sales. Of course, this proposal was strongly opposed by the insurance industry, which feared not only that banks would continue to encroach on their turf, but also the possibility that banks might be able to do so under a laxer regulatory regime, owing to the lighter oversight exercised by the OCC (1997 Congressional Quarterly Almanac, 2-75). It is important to note that even if the insurance industry was increasingly resigned to the end of the Glass-Steagall era, it was nevertheless that the new era should be constituted in favorable terms. The Treasury document also discussed the contentious issue of affiliations between banks and non-financial companies and made two different proposals. First, it suggested the option that banks be allowed to affiliate with most kinds of non-financial enterprises, but with limits imposed on the proportion of revenue coming from non-financial sources. The second option would have prohibited non-financial affiliations outright, except for through dedicated thrifts that would not enjoy deposit insurance. The first option was panned by consumer advocates, who argued it would result in the concentration of financial power in "super banks", while the second was much less attractive to financial institutions themselves (ibid).

Taking the Treasury proposal as a basis – and therefore inevitably incorporating many bank-favored proposals – Jim Leach attempted to steer a new comprehensive banking bill, HR 10, through his committee in June. The proposed legislation was radical and, as ever, the centerpiece was the turning of Glass-Steagall on its head by allowing commercial banks to

affiliate with securities firms and insurance companies. Among its other provisions, the bill also proposed the creation of a Council on Financial Services, made up of the regulators of each branch of the financial services industry and with the power to authorize or prohibit new financial services and products.

However, the issue of non-financial commercial activity was an early stumbling block for Jim Leach's renewed efforts to pass a comprehensive banking bill. Although the House Banking Committee passed a version of a reform bill, HR 10, on June 20, the vote was extremely close, 28 votes to 26, and Leach himself declared that he was deeply uncomfortable with allowing banks to affiliate with non-financial enterprises, which was the thrust of the bill as it stood, following amendments accepted in committee against Leach's wishes. Advocates of the provisions, including Chuck Schumer (D-NY), argued that they were necessary in order to allow securities and insurance firms, including those with existing non-financial subsidiaries, equal opportunity to affiliate with banks. However, Leach and others, including ranking member Henry Gonzalez, worried that such affiliations could entail risks that would be difficult to calculate and mitigate (CQ Weekly 1997, 1431). These amendments, along with one proposed by Bill McCollum (R-FL) to terminate the federal thrift charter that established thrifts as separate institutions from banks, left the bill in a precarious situation with respect to its chances on the floor.

Even worse for the bill's prospects, the bill had to pass through the Commerce committee, where the insurance industry had stronger advocates, in September. John Dingell (D-MI) introduced an amendment to allow state insurance regulators jurisdiction over banks' insurance products; predictably, the amendment won support from the insurance industry and strong opposition from the banks (CQ Weekly 1997, 2292). Moreover, the issues that had been contentious during the Banking Committees considerations had not disappeared. By late

September, the committee appeared so divided that Thomas Bliley (R-VA), the committee chair, suspended markup and announced no date for taking up the bill again, despite Leach's vociferous objections and appeals to Gingrich (1997 Congressional Quarterly Almanac, 2-78). Eventually, in late October, Michael Oxley (R-OH), chair of Commerce's Finance subcommittee, took up the bill and attempted to craft a compromise that, on the one hand, clearly demarcated the extent of state insurance commissioners' jurisdiction over banking products but, on the other, reduced the discretionary powers of the OCC that had thus far tended to be exercised to the banks' advantage. However, as so often before, the proposals failed to secure industry-wide approval, with banking lobbyists arguing that the bill was designed to advantage securities and insurance firms at their expense (1997 Congressional Quarterly Almanac, 2-79). Despite this, the updated HR 10 passed out of subcommittee 23 votes to 2 on October 24 and then out of the full Commerce Committee 33 votes to 11 on October 30.

Despite its passage through Commerce, however, the bill had by no means won consensus in the chamber – a powerful reminder of the multiplicity of hurdles, so prominent in the earlier period, that any reform would have to clear to become law. As in previous attempts, the Republican leadership would not countenance a bill that would sharply divide their own caucus, especially if there were no guarantee that the bill would be taken up and passed by the Senate, a prospect that looked increasingly unlikely when Lauch Faircloth (R-NC), chair of the Senate Banking Committee subcommittee on Financial Institutions publicly went on record against the bill (CQ Weekly 1997, 2671). The leadership made a token effort to bring the bill to the stage where it was ready to be debated on the floor, but once it became clear in early November that the Banking and Commerce committees would not reach agreement, they pulled support from the legislation, with the promise, made many times before, that they would push for a new version in the next session (1997 Congressional Quarterly Almanac, 2-

79). The major change from the early 1990s was that where previously delay had exasperated all parties, it was now clear that the banks were increasingly amenable to Congressional stalemate.

Following the efforts of 1997, 1998 looked to many observers in the industry and in Congress to be the year when a substantial repeal of Glass-Steagall would finally pass. Many of the conditions for a successful bill that had previously been lacking were apparently in place: there was a concerted effort on the part of the House leadership to pass a bill and the Commerce and Banking committees in the House reached a consensus on jurisdiction. Above all, the profound changes imposed upon the industry by regulatory, judicial and commercial developments meant that the insurance and securities lobbies were increasingly resigned to the end of Glass-Steagall and increasingly willing to compromise to secure its dissolution on favorable terms. (1998 Congressional Quarterly Almanac, 5-3). Indeed, the legislation progressed further than it ever had previously, surviving an extremely narrow floor vote in the House, but was still ultimately unable to prevail in the Senate, where it fell victim to conservative Republicans' concerns about how the Community Reinvestment Act would apply to newly liberated financial institutions (1998 Congressional Quarterly Almanac, 5-14). That this, and not intra-industry disagreements, should prove the bill's undoing suggested the start of an important transformation in the industry's congressional profile: where previously the legislative fortunes of the industry had been appeared as a 'special case', determined by the flows mercurial interest group alliances, from now on its issues often resembled an issue of much more prosaic partisan or ideological conflict.

As has been suggested, the refusal of Republican leaders to countenance a potentially messy floor fight had represented an awkward stumbling block to Glass-Steagall reform in recent sessions of Congress. So, the decision of John Boehner (R-OH), Chair of the Republican

Conference, to champion a revised version of HR 10 from the previous session in March represented an important step forward. In the second week of March, the new bill was presented. Its major provision was similar to that that made up the core of the Banking and Commerce bills from the previous session: by forming financial holding companies, banks would be able to acquire securities and insurance firms and securities and insurance firms would be able to acquire banks. Moreover, the bill provided for preemption of the most stringent state regulation of insurance products and of bank sales of insurance, and for banks to retain the relatively *laissez-faire* Office of the Comptroller of the Currency (OCC) as their principal regulator, rather than the traditionally more interventionist Securities and Exchange Commission (SEC). Finally, in a measure strongly supported by the commercial banks, the bill proposed to cease the granting of unitary thrift charters, which allowed non-financial enterprises to operate savings institutions. Although the bill was designed to offer concessions to all branches of the financial services industry, it was greeted more favorably by insurance and securities firms than by the commercial banks (CQ Weekly 1998, 647). While the banks had now for some time been able to acquire securities firms and sell insurance by virtue of regulatory and judicial decisions, the bill would extend the same privileges to their securities and insurance rivals for the first time. By the end of March, the American Bankers Association had come out against the bill, while securities and insurance groups had launched a publicity blitz in its support, buying full-page advertisements in national and Washington-based newspapers (ibid).

By the beginning of April, it became clear to Republican leaders that the bill could not secure passage on the floor unless greater consensus between industry groups were achieved. They initially attempted to boost HR 10's popularity by attaching to it a popular measure concerning credit union expansion (originally HR 1151), but this proved insufficient to generate enthusiasm for the bill. Before the legislation could be debated, Gerald Solomon (R-

NY), the Rules Committee Chair, withdrew the bill, citing a lobbying effort from the banks the scale of which, according to Congressional Quarterly Weekly, Solomon said he had “never seen in my life” (CQ Weekly 1998, 864). Not only did the bill as constituted remove the competitive advantage banks enjoyed over their insurance and securities counterparts with respect to ownership of other institutions, but the unitary thrift charter measure, the banks' favorite part of the bill, had been excised in committee. Moreover, President Clinton announced that he would veto the bill, which diminished congressional Democratic support for the legislation to almost zero. Nevertheless, Republican leaders were not prepared to kill the bill and Boehner announced that debate would commence in May (In the interim, the credit union bill was introduced separately and passed overwhelmingly) (1998 Congressional Quarterly Almanac, 5-10).

The need for a bill was given greater urgency in early April, when Travelers Group and Citicorp announced plans for a merger (New York Times, April 7 1998). Under existing rules, the Federal Reserve would have to require the resulting institution to sell off parts of its securities and insurance business (contained within Travelers) to comply with Glass-Steagall's provisions. Both industry analysts and senior members of Congress praised the proposed merger as an important means of preserving and extending the United States' dominant position in the global financial services industry. Moreover, Citicorp, a large commercial bank and previously one of the most powerful opponents of HR 10, announced that it would now support the bill (1998 Congressional Quarterly Almanac, 5-9). This was one of the most prominent signs yet of how profoundly changes in the industry had shaken up the old interest group alliances.

With this new impetus, the bill came back to the floor of the House in early May, though it remained highly contentious. Two proposed amendments in particular threatened to kill the

bill. The first, proposed by John LaFalce (D-NY) and Bruce Vento (D-MI), would permit banks to conduct non-traditional activities through a subsidiary, rather than through a holding company. Opponents feared this might increase the likelihood of taxpayer bailouts, if losses in subsidiaries caused banks to fail and the amendment fell 115 votes to 306. The second, brought by Richard Baker (R-LA), was a similar measure that would have allowed banks to establish new operating subsidiaries. It fell 140-281. With these amendments dead, the Republican leadership felt comfortable to allow a floor vote on the full bill on May 13: the result was a dramatic 214-213 victory for the measure, which was secured only after extensive personal lobbying by Newt Gingrich and other Republican leaders (CQ Weekly 1998, 1355). If it is striking that this was one of the few very important roll call votes in the long struggle to repeal Glass-Steagall, it is equally striking that it ultimately proved futile.

It was the first time in multiple attempts that the House had passed a repeal of Glass-Steagall on the floor, but the bill's path to public law was still far from clear, with further hurdles awaiting in the Senate. However, as has been suggested, for the first time it was not intra-industry disagreement that represented the greatest obstacle to passage, but ideological issues raised by individual senators. Phil Gramm (R-TX) strongly objected to the bill's stipulation that the Community Reinvestment Act, which required banks to prove that they were lending to the communities from which they took deposits, would apply to the new financial institutions that would result from the new acquisition powers HR 10 granted (1998 Congressional Quarterly Almanac, 5-11). Gramm's opposition succeeded in pushing Alfonse D'Amato, Chair of the Senate Banking Committee, to postpone a mark-up on the bill on September 3. Interestingly, Gramm, who in previous years had been a crucial ally of the banking lobby, did not appear to have the industry's support and, according to Congressional Quarterly Weekly, many banking lobbyists declared themselves exasperated with his maneuvering (CQ Weekly 1998, 2344). However, following increasingly heavy pressure

from industry groups a compromise was reached a week later – one that Gramm did not support, but which was able to carry the majority of Republicans on the Banking Committee – to relieve securities and insurance firms from community reinvestment requirements, while leaving banks' obligations intact (CQ Weekly 1998, 2411). The Banking Committee passed the bill 16 votes to 2 on September 11. Two weeks later, the Federal Reserve provisionally approved the Travelers-Citicorp merger, in what in earlier years might have served as a stunning demonstration of how far Congress was playing second fiddle in the debate (New York Times, September 24 1998).

The prospects for Senate floor passage looked promising when for the first time bank and insurance groups reached an agreement on which state and federal bodies would exercise oversight over the new financial products that firms would be able to offer in the light of the new legislation. Moreover, banks and securities firms had also reached an agreement on the circumstances under which the SEC would act as a financial product's primary regulator and under which the authority of the OCC would be preserved (1998 Congressional Quarterly Almanac, 5-13). Remarkably, however, given the recent history of the reasons for the failure of Glass-Steagall reform, the new industry consensus was insufficient to force the bill through. First, Phil Gramm remained intransigent on the community reinvestment provisions of the bill and stalled the bill in the Senate until time ran out. Second, Robert Rubin, the Secretary of the Treasury, strongly opposed the wording of the bill that would have placed the new breed of financial institutions under the regulatory authority of the Federal Reserve rather than the Treasury and he encouraged President Clinton to veto any bill that was passed with this provision (1998 Congressional Quarterly Almanac, 5-14). With this threat looming, congressional leaders were unable to generate sufficient momentum to overcome Gramm's delaying tactics. Nevertheless, although no substantial reform or repeal had yet been passed, 1998 clearly marked, if not the end, then certainly the beginning of the end of an era in the

congressional politics of the financial services industry: from this point on, intra-industry competition would no longer be the dominant issue in the passage of banking-related legislation. Extra-congressional events, both in the judicial and regulatory spheres and in financial services firms' independent actions, had overtaken action in the Capitol, leaving congressional leadership in the field gravely compromised.

In 1999 a full repeal of Glass-Steagall was finally passed by both chambers and signed into law by the President. Although the bill's passage was far from straightforward, it is striking how different the nature of the debate and of the stumbling blocks were from previous efforts to secure reform. For the first time in the decades-long debate on financial services reform, the major branches of the industry were lined up behind a single bill and the interest group cleavages that had defined the struggle in previous congresses were almost entirely different. Rather than seeing commercial banks battling securities firms and insurance companies, the key conflicts were between consumer groups and the newly united financial services industry and, to a lesser extent, between rival regulatory bodies within the Administration, most notably between the Treasury and the Federal Reserve (1999 Congressional Quarterly Almanac 5-25). The new groupings of interests reflected how far the debate on financial services had moved on since the struggles of earlier in the decade. Almost all stakeholders now agreed that banks should be allowed to own securities and insurance firms and vice versa and at no stage was the bill's primary purpose, the repeal of the 1933 Glass-Steagall Act and the 1956 Bank Holding Company Act, controversial. The crucial issues in 1999 were less about the relationships between different sectors of the industry – these issues had largely been settled outside Congress, first by executive and judicial decisions and then by private action and the development of new products within the industry itself – and more about the relationship of the industry as a whole to consumers and to the rest of the economy (1999 Congressional Quarterly Almanac, 5-2).

Three such issues dominated the year's debates. First was the question of consumer privacy: how much freedom should the new financial institutions have to sell and share consumer information? Second, there was heated conflict relating to the extent of the new financial institutions' obligations under the 1977 Community Reinvestment Act (CRA). In particular, should securities and insurance firms affiliated with banks be bound by the same requirements on community investment as the banks themselves? Third was the problem of affiliation between non-financial corporations and unitary trusts, which was legal under existing laws, but which the financial services industry argued was both destabilizing and provided such corporations with an unfair competitive advantage. There was a fourth issue that at points threatened to undermine the whole bill, which was the struggle – described by several observers as a “turf war” - between the Treasury and the Federal Reserve over how the newly legal financial conglomerates should be structured and, consequently, which of the two bodies would exercise regulatory oversight (CQ Weekly 1999, 1285). The great complication was that where in most previous efforts, the House Banking Committee had taken a clear lead in drafting legislation, in 1999 three separate bill drafts emerged during the course of the year – one each from the House Banking, House Commerce and Senate Banking committees – and each appeared to embody different priorities.

Senator Phil Gramm (R-TX), whose objections had derailed the bill in previous sessions, assumed the chairmanship of the Senate Banking Committee in early 1999 and he immediately announced his opposition to the version of HR 10 that the House had approved in the previous session. In his committee's first action on the legislation, a mark-up in early March, he pushed for and won an amendment that would scale back the requirements of the CRA. This move immediately drew a veto threat from the Clinton Administration. Gramm also pushed for a provision that would require new conglomerates to organize as holding companies rather than allowing banks to form new operating subsidiaries, which set up

another major clash with the Administration (1999 Congressional Quarterly Almanac, 5-6). The redrafted bill cleared the committee on a vote largely along party lines.

On the House side, the Banking Committee's mark-up, also held in the first week of March, took positions more in tune with the president's wishes: conglomerates could be organized as series of operating subsidiaries and the CRA would be extended to cover banks that were acquired by other financial institutions. Moreover, the Banking Committee inserted for the first time a privacy provision that would require financial institutions to publish and notify their customers of their data sharing practices. The committee approved the bill on March 11 by 51 votes to 8, though because of the breadth of the proposed bill, the Commerce Committee claimed joint jurisdiction over the legislation, so no floor action could be taken without a second committee mark-up.

In the interim, Gramm's bill was debated and passed on the floor of the Senate on May 6, 55 votes to 44, almost wholly along party lines. The CRA proved the most contentious question, with Democrats arguing that it was responsible for improvements in minority home ownership and social mobility and Gramm countering that it was a vehicle for community groups to "extort" money from small banks (CQ Weekly 1999, 1081). However, on this and on the issue of conglomerate structure, the Senate bill as passed on the floor largely reflected what Gramm had drafted in committee, which set up an inevitable collision, first with the starkly different bill making its way through the House and with the Administration. Moreover, the Senate bill contained no privacy provision, which had become a central plank of the bill agreed by the House Banking Committee.

Indeed, when the House Commerce Committee came to debate the bill in late May, the privacy issue assumed an even more central position, with Democrats vocally asserting that the only reason for Republican opposition to the measures was to enrich financial services

firms who stood to generate large profits by selling consumer information (1999 Congressional Quarterly Almanac, 5-11). The committee accepted an amendment, much stronger than that included by the Banking Committee, that would require financial services firms to provide consumers with the option to opt out of having their information shared with third parties. By June 10, when the Commerce Committee approved the bill by voice vote, the privacy question had become the most publicized section of the bill, which up until this point had received little public interest outside the financial services industry itself. Importantly, the issue also represented the first occasion in the Glass-Steagall debate on which banks, securities firms and insurance companies were publicly united on a single point. The Financial Services Council, a major lobbying group, announced that almost all its members would oppose the bill if the privacy provisions remained intact (CQ Weekly 1999, 1378).

Owing to the significant differences between the bills reported out by the two House committees, Republican leaders had to decide which provisions to include in the bill that would be sent to the floor. The draft agreed at the end of June combined the less stringent privacy measures from the Banking Committee bill with the regulatory structure preferred by the Treasury Department, despite some prominent Republicans', notably Tom DeLay (R-TX), preference for Federal Reserve oversight. However, by the time the bill reached the floor in early July, the privacy debate was sufficiently controversial that legislators were unwilling to cast a vote publicly against greater privacy protections (1999 Congressional Quarterly Almanac, 5-14). Consequently, on July 1 an amendment introduced on the floor to reinsert the "opt out" requirement that had been proposed by Commerce was approved by 427 votes to one, despite the unified opposition of the industry, in another striking demonstration of the power of public attention to congressional votes. The overall bill was passed the same day,

343 votes to 86, which represented considerable bipartisan consensus and a stark contrast from the one vote margin of victory in the previous session.

Despite having lost the privacy battle, industry lobbies responded favorably, with the American Bankers Association, the American Insurance Association and the Securities Industry Association all expressing public support for the bill (ibid). Unlike in previous efforts, where minor disagreements had delayed or entirely derailed the bill, the industry was united in its desire to secure a bill in the current session and have in place a formal structure for cross-industry mergers as soon as possible. One major commercial development that seems to have facilitated this change was the realization within the industry that American banks, securities firms and insurance companies had as much to fear from market entry by foreign diversified financial conglomerates as they did from intra-industry competition (1999 Congressional Quarterly Almanac 5-18).

The remaining question was whether the House bill could be reconciled with its Senate counterpart without drawing a veto from President Clinton. Major differences between the two bills, on privacy, the CRA and regulatory structure, remained and the conference was a protracted and fractious process. Momentum in favor of greater consumer privacy protections grew over the summer and key Republican defections on the issue, notably by Senator Richard Shelby (R-AL), coupled with extensive negative publicity, pushed Gramm towards a compromise (CQ Weekly 1999, 1943). Nevertheless, it took until October for all parties to reach agreement and on several occasions determined lobbying by the united financial services industry was required to prevent negotiations stalling or unraveling. The Congressional Quarterly Almanac describes industry pressure during the conference proceedings as “a case study in how a well-heeled and well-organized interest group can swiftly prod Congress to move” (1999 Congressional Quarterly Almanac, 5-22). With the

strong desire for a bill both from industry and the administration, and extensive and public campaigns by consumer and civil rights groups on the CRA issue, Gramm was compelled to scale back his ambitions for weakening privacy protections and CRA enforcement. When the Administration announced on October 14 that the Treasury and Federal Reserve had reached an agreement on regulatory structure, all the pieces were in place for final passage (1999 Congressional Quarterly Almanac, 5-25). Finally, in the early hours of October 22, the conference committee announced that a draft had been agreed. The final language included the disclosure and opt-out privacy protections, but granted some exceptions for information sharing between affiliated institutions and did not include the more stringent “opt-in” provision that some Democrats had hoped for; it provided for the Treasury to regulate the new financial conglomerates, with the exception of their real estate and insurance underwriting activity; and it required banks that wished to acquire other financial institutions to have a satisfactory community reinvestment rating, though it did not extend the CRA's provisions (CQ Weekly 1999, 2654).

On November 4, the Senate cleared the conference report 90 votes to 8 and the House passed it by a margin of 362 votes to 57. It marked the end of an era, which had been gradually fading for some years, in the congressional politics of the financial services industry: interest group competition had become steadily weaker over the previous few years, as new competitive pressures and extra-congressional forces meant that the end of Glass-Steagall appeared increasingly inevitable and Congress found itself responding to rather than directing events. The passage and signing into law of the Glass-Steagall repeal, however, formalized this process and laid the ground for a new era in which the political interests of commercial banks, securities firms and insurance companies would become increasingly indistinguishable.

### **The industry ascendant: 2000-2006**

It is difficult to exaggerate how profoundly the passage of Glass-Steagall altered the extent and nature of financial services-related legislation considered by Congress after 1999. Of course, there remained a steady flow of bills that concerned banking and finance and, certainly, the flow of campaign contributions from financial services firms to congressional candidates did not cease, but major conflict within the industry was effectively over. It is worth re-emphasizing that that conflict had always been primarily about market entry. It was not that commercial banks, securities firms and insurance companies had naturally different interests; indeed, in general all three groups sought as little government regulation of the industry as possible and wanted freedom to create and sell new products without intervention. The conflict, then, had rather been of the old-fashioned, protectionist kind: commercial banks had wished to enter new markets and securities and insurance firms, fearing reduced margins and market share in the face of greater competition, had sought to block them. If this had created the appearance that the interests of the three groups were more essentially divergent, that was an illusion of the ferocity of the struggle over Glass-Steagall, as indeed the next eight years would demonstrate. During this final period – at least until the emergence of a global financial crisis in 2007 – the united financial services industry enjoyed great legislative success. Outside Congress, the industry saw its profits soar to such an extent that by 2006 they made up over 40 percent of the earnings of all corporate America.

In order to emphasize the changes in the years following the repeal of Glass-Steagall, I take a slightly different approach to recounting the events of this period. Rather than adopting a strictly chronological narrative – which in the previous periods serves to demonstrate the tortuous path towards reform and the multiplicity and transitory nature of interest group coalitions – here I review the period through the evolution of three areas of legislation

between 2000 and 2007: first, the effort to overhaul the nation's bankruptcy laws; second, the liberalization of securities laws that were to assume prominence following the financial crisis that began in 2007; and third, the attempts to strengthen regulation of Fannie Mae and Freddie Mac, the government-sponsored mortgage enterprises. Although this account must be suggestive rather than definitive, I argue that the unification of the financial services industry that was cemented by the repeal of Glass-Steagall facilitated the development of these legislative efforts in the direction favored by the financial services industry and against the interests of other stakeholders. First, by removing the most divisive issue facing the industry from the legislative agenda, the repeal freed up time and energy for progress on issues where the industry was in agreement, most notably on bankruptcy reform. Second, and perhaps ultimately more importantly, by giving the country's largest commercial banks – institutions with asset bases measured in the hundreds of billions – a much greater stake in securities liberalization, the repeal of Glass-Steagall had the effect of vastly increasing the size and resources of the securities lobby, which until this point had been dwarfed by its commercial banking and insurance rivals.

I turn first, however, to the issue of bankruptcy reform, which as suggested above, represents the clearest demonstration of how far the interest group cleavages generated by financial services legislation began to resemble those generated by broader ideological conflict rather than bitter intra-industry rivalry. The period saw much greater cooperation between the sub-sectors of the industry, particularly between the securities firms and commercial banks, whose core businesses now greatly overlapped. The battles over bankruptcy, which continued for several years, illustrate this new kind of conflict and this new kind of coalition vividly. For several years, the credit industry – a loose alliance of the banks, credit card issuers, some securities firms and major retailers – had been pushing for a reform of bankruptcy laws that would prevent debtors from declaring bankruptcy when they could afford to repay some of

their obligations and increase the amounts recovered by creditors. However, though some progress toward this goal had been made, the large amounts of legislative time spent on Glass-Steagall and the intra-industry conflict this generated meant that no legislation had yet passed both chambers. With Glass-Steagall reform finally complete and the industry united, credit lobbyists were optimistic that 2000 would prove the year that an overhaul was passed (2000 Congressional Quarterly Almanac, 5-3). In the event, although HR 2415 cleared the Senate in February and the House in October, the bill failed to garner Administration support and fell victim to President Clinton's pocket veto in December.

What is interesting in the context of interest group competition is the kind of controversies that first delayed and ultimately killed the bill. Two issues were contentious. First, the Senate version of the bill included an increase in the minimum wage, quite unrelated to the main thrust of the bill, which led to conflict in the House along predictable liberal-conservative cleavages (CQ Weekly 2000, 243). Although a compromise was reached during conference, the Clinton Administration announced that it was sufficiently dissatisfied with the legislation to refuse to sign it. The crucial second issue was, somewhat surprisingly, abortion. Charles Schumer (D-NY) had inserted language into the bill that would have prevented violent anti-abortion activists with outstanding court judgments or fines against them from taking shelter behind bankruptcy laws. This section of the bill was removed during the extended, six-month-long negotiations between the chambers. However, it proved a deal-breaker for the Administration, which cited the deletion of the abortion provision as the main reason for its refusal to back the bill (2000 Congressional Quarterly Almanac, 5-8, 5-9).

It represented a stark contrast with decades of inter-industry conflict deriving from complex and sometimes obscure regulations, but remained the crucial issue when bankruptcy was considered again in 2001. As in 2000, the credit industry strongly urged bankruptcy reform,

but Congress failed to craft a measure that could clear both chambers by the end of the year (2001 Congressional Quarterly Almanac, 4-3). Separate bills passed both House and Senate in March, but conference proved a much more awkward stumbling block. Once again, it was not rival industry demands that delayed progress, but more broadly based partisanship. This was particularly problematic in the Senate, where the new 50-50 seat split led to extended stalemate in the procedural decision on how to form a conference committee (CQ Weekly 2001, 1065). Though this issue was settled in June when the Democrats regained an ultra-narrow majority, it was succeeded by concerted efforts on the part of Senate liberals, led by Paul Wellstone (D-MI) to delay the bill's passage. Following the September 11 terrorist attacks, a conference meeting scheduled for September 12 was postponed and the bill failed to win any further legislative time before the end of the session (2001 Congressional Quarterly Almanac, 4-5).

The story in 2002 was little different: despite renewed lobbying from the credit industry on the issue, the abortion controversy that had arisen in 2001 again derailed the bill. The task legislators faced was to reconcile the two bills passed in the previous session, but Senator Charles Schumer (D-NY), the principal architect of the abortion provisions, and Representative Henry Hyde (R-IL), a strong opponent of abortion rights, spent months in stalemate (2002 Congressional Almanac, 5-3). Although the two eventually reached a compromise at the end of July that left most of Schumer's original language intact while satisfying Hyde, the agreement was rejected by other anti-abortion Republicans in the House, whose objections ultimately scuppered Republican leaders' attempts to bring the bill to the floor in November. When House leaders proposed and passed the bill without the abortion provisions, Senate leaders announced they would not consider the legislation without them and the bill died (CQ Weekly 2002, 3021).

Despite the industry's frustrations, the bill made no further progress until 2005, as its supporters in Congress tired of its continuing failure and its becoming bogged down in seemingly unrelated issues. When the overhaul bill that the credit industry had been attempting to push through Congress for years finally did become law, it was less because of any shift in the underlying pattern of interests or in the technical aspects of the bill than because Republicans were able to keep out of the bill the abortion provisions that had undermined its progress in previous years. S 256 made it more difficult for individuals to file for Chapter 7 bankruptcy, which entailed the forgiveness of unpaid debt, and pushed them instead to declare Chapter 13 bankruptcy, which required structured debt-repayment to be spread over several years. The crucial provision was a means test that would prohibit those earning over a certain amount – usually their state's median income – from benefiting from Chapter 7 status (2005 Congressional Almanac, 3-3). The bill, lacking any abortion provision, was approved by the Senate Judiciary Committee in mid-February and was debated on the floor in early March. Charles Schumer (D-NY) introduced the abortion amendment, designed to prevent violent anti-abortion activists benefiting from bankruptcy protection, he had inserted in previous sessions on March 8 (CQ Weekly 2005, 652). However, following the 2004 elections, Republican Senate leaders had sufficient votes to defeat the amendment 53 votes to 46. The overall bill cleared the Senate 74-25 two days later and was pushed through the House in April under a closed rule by Republican leaders, despite the protests of Democrats and consumer groups.

The role of the new alignment of the financial services industry in securing bankruptcy reform seems important, even if this was the issue on which the industry made the slowest progress in the years after 1999. The end of intra-industry conflict allowed banks and securities firms to concentrate their efforts and cooperate on the issue. Moreover, where in previous years deadlock on financial services legislation had been impervious even to

landslide changes in the composition of Congress, the end of the Glass-Steagall era saw most of the industry's issues collapse into conventional partisan conflict. Consequently, when the Republican Party achieved working majorities in both chambers, the intra-party conflicts that might have plagued the effort in previous years no longer existed.

The influence of the end of Glass-Steagall appears even clearer in the case of securities regulation reform, which was pursued piecemeal, but with enduring consequences, during this period. In 2000, HR 4577, an overhaul of the regulations governing the trade in commodities and complex financial instruments, further demonstrated how the debate within the industry had moved on. The crucial issue for the financial services industry was competition from abroad in the rapidly growing market for complex financial instruments such as derivatives, which by 2000 had a global face value in excess of \$80 trillion (CQ Weekly 2000, 2544). The industry, the Federal Reserve and the Treasury all strongly argued for a simplification and relaxation of regulation, while the major conflict arose not between rival market participants, but between two regulators, the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC), each eager to defend its turf (*ibid*). It is crucial to note, as suggested above, that the size of the institutions affected by such regulations had vastly increased since the passage of Glass-Steagall reform, which commercial banks such as Citigroup and Bank of America operating huge trading subsidiaries. The central question was how to classify a new kind of financial instrument, known as a single-stock future – a derivative tied to the share price of a single corporation – and, consequently, to whom oversight of its trading should be granted. However, the Administration and the united industry exerted great pressure on the two regulators to reach an agreement and, in September, they announced that they had come to a compromise on how to share jurisdiction. With this agreed, the obstacles to passage appeared relatively minor

and both chambers cleared a conference report on December 15, before the bill was signed into law on December 21 (CQ Weekly 2000, 2896).

An interesting footnote is that the part of the bill that has come to assume the greatest importance in the subsequent congressional politics of the financial services industry received relatively little attention at the time. Phil Gramm's (R-TX) insistence that privately negotiated financial instruments, such as interest rate and credit default swaps, remain unregulated generated little controversy in 2000, but has become one of the most cited example of congressional regulatory laxness in discussions of the financial crisis that began in 2007 (see, for example, New York Times November 16 2008, "Deregulator Looks Back, Unswayed"). It is difficult to say exactly how far the changes to the industry since 1999 influenced this decision, as to do so would require far greater knowledge of the lobbying of Senator Gramm than is currently available. However, it is manifestly true that however great or small the *influence* of the unification of the financial services industry in creating the loophole, it had an enormous importance for the loophole's long-term *impact*, for only at the time of writing is the full extent of the commercial banks' exposure to bad credit default swaps – and the attendant losses – becoming clear.

This general trend toward securities liberalization continued into 2001, when HR 1088, a bill to reduce the fees charged to securities firms by the Securities and Exchange Commission, which was generating much more in fees than it was spending on regulatory enforcement, became law. The measure, which would reduce fees by almost \$15 billion over ten years, was strongly backed by Wall Street firms and the commercial banks that had developed large securities interests. Moreover, provisions to increase the salaries of SEC employees to improve staff retention ensured the support of the regulatory body itself (2001 Congressional Quarterly Almanac, 4-8). The House passed the bill, 404-22, in June; the Senate cleared the

same measure by voice vote in December; and President Bush signed the bill into law a few days later. In a final demonstration of the enormous legislative success the newly expanded securities industry enjoyed during this period, it is worth considering how half-hearted was the Congressional response to one of the few major securities scandals of the period. In November 2003 the House passed HR 2420, a bill designed to end abusive “market timing” trading practices among some mutual funds. These practices involved firms using knowledge of their customers’ trades to benefit from changes in asset prices that occurred after the close of the market. Despite the initial opposition of the House Republican leadership, backed by the securities industry, an investigation led by Eliot Spitzer, then New York Attorney General, earlier in the year brought such practices to public attention, which forced the House's hand (CQ Weekly 2003, 2907). Nevertheless, there was no companion action in the Senate and the issue lay dormant by the end of the session, to the relief of the industry, which had argued that regulation would impose unnecessary costs on securities firm and would lead to the loss of business abroad. It was a familiar refrain during the period – and one now made at twice the volume, since the entry of the largest commercial banks into the market.

The final major issue I consider here was also to assume enormous importance once the global financial crisis emerged in 2007. Fannie Mae and Freddie Mac, the two huge government-sponsored enterprises (GSEs) that together held over a trillion dollars in assets and represented a near-duopoly in the secondary mortgage market, had long occupied an ambiguous position within the U.S. financial services industry. Although privately owned and traded on the stock exchange like other companies, the firms’ legislative origins encouraged the persistent belief that they enjoyed some form of government guarantee and, though no such guarantee existed in law, both firms were able to borrow at almost the same rate as the United States itself. That situation sat uneasily with many members of Congress, as did the potential systemic risk posed by having two firms so dominant in a crucial financial market.

Ultimately though, Congress failed to strengthen regulation of the GSEs before the crisis of 2008 brought them to the point of insolvency and government conservatorship. Did the end of the Glass-Steagall era play a role in the failure of attempts to strengthen oversight of the firms? As before, it is difficult to say with confidence, as the politics of the issue, as will become clear, was complex. However, what is clear is that Fannie Mae and Freddie Mac played a crucial role in the trade in mortgage-backed securities and collateralized debt obligations that became vitally important profit centers for securities firms and commercial banks. Again, then, it seems likely that the concentration of effort and resources in favor of securities liberalization that was enabled by the end of Glass-Steagall also contributed to the reluctance to stymie the GSEs and the trade in securities that relied upon them.

The Congressional effort to regulate the GSEs was prompted in 2003 by an accounting scandal emerged at Fannie Mae that required the firm to revise earnings by \$5 billion. Michael Oxley (R-OH), Chair of the House Banking Committee, drafted a bill that would have created a new regulator to oversee the companies' activities. However, the Administration asked for greater power to veto the firms' activities, which some House Democrats, notably Barney Frank (D-MA), argued was a cover for restricting lending to low-income groups and minorities. Oxley believed he lacked the votes necessary to meet the Administration's requests and took the legislation no further in the 2003 session (2003 Congressional Quarterly Almanac, 4-8). No further progress was made in 2004, when the legislation encountered strong opposition from both the Administration and from the firms themselves (2004 Congressional Quarterly Almanac, 3-3). The Senate Banking Committee took the lead, drafting a proposal, S 1508, that would have created a new regulator for the firms, better able to monitor their increasingly important trade in complex financial instruments, as well as their more traditional mortgage businesses. Senator Richard Shelby (R-AL), Chair of the committee, proposed creating a Federal Housing Enterprise Supervisory

Agency which would have the authority to set capital requirements for both Fannie Mae and Freddie Mac and, more controversially, to appoint a receiver to liquidate the firms in the event that they defaulted on their obligations. The latter move met objections from some legislators who not only believed the firms' failure was inconceivable, but also that the provision would decrease market confidence in their financial health and so reduce lending (2004 Congressional Quarterly Almanac, 3-4). The ultimate collapse of both Fannie Mae and Freddie Mac in 2008, which required the government to take both firms into conservatorship, perhaps vindicates the arguments of Shelby and others who pushed for tighter regulation in 2004, but the plans could not overcome the objections of the Administration and both enterprises and no further action was taken in either chamber.

Renewed efforts in 2005 hit similar hurdles to those encountered in the previous sessions, particularly objections from the Bush Administration and extensive lobbying by both firms (2005 Congressional Quarterly Almanac, 3-11). Separate bills were drafted by House and Senate, though both proposed the creation of a new, independent regulator with broader powers. However, there was no agreement on controversial language in the House bill, HR 1461, which would have required the GSEs to contribute five percent of their profits to an affordable housing fund which would be used to finance developments in low-income areas. Similarly contentious was the question of how to deal with the firms' investment portfolios, which were worth over \$1 trillion and, according to the Federal Reserve, needed tighter regulation to mitigate the systemic risk the investments posed (ibid). Despite pressure from the Bush Administration, Michael Oxley (R-OH), Chair of the House Banking Committee refused to add to the bill specific regulation of the type of assets the GSEs would be allowed to purchase (CQ Weekly 2005, 1453).

The bill passed the Banking Committee overwhelmingly, 65-5, on May 25, but encountered resistance from conservative Republicans on the floor, particularly in relation to the affordable housing provisions. Oxley agreed to reduce the proportion of profits contributed to 3.5 percent and the bill was passed, 331-90 in late October. However, the bill made far less progress in the Senate, where the draft approved along party lines by the Senate Banking Committee included no affordable housing provision. Consequently, the legislation met strong Democratic opposition that prevented it coming to the floor and the session expired before debate was scheduled (CQ Weekly 2005, 2919).

So, at the end of 2006, the financial services industry looked supremely confident. The years since the repeal of Glass-Steagall had seen enormous profits and the highly successful expansion of commercial banks into the securities industry, most notably in the shape of Citigroup and Bank of America. The united financial services industry had achieved significant legislative successes, having secured passage of a bankruptcy bill that had been a priority for years against the strong opposition of consumer groups and having achieved a steady stream of liberalizations within the securities trade. The end of Glass-Steagall has enabled both the united front the industry showed throughout the period and the greatly expanded interest in securities deregulation. There was little if any sign that a new era was beginning again, one that would see Congress's relations with the industry turned completely on its head.

### **The emergence of crisis – and the end of finance’s golden age? 2007-2008**

In order to document how rapidly and profoundly the emergence of the financial crisis altered the congressional agenda, I return in this final period to a largely chronological account. By the end of 2008, the industry, once so confident, was at Congress’s mercy. By this point, it makes little sense to speak of interest group coalitions within the industry, when commercial banks, securities firms and insurance firms alike required a federal bailout to ensure their survival. Yet the influence of Glass-Steagall was profoundly felt: here were commercial banks and insurance firms, humbled by their forays into the securities trade and investment banks ruined by their associations with insurance groups. If it is too soon or too crude to say that the end of Glass-Steagall lay behind the crisis, it seems clear that its unification of the industry shaped the *character* of the crisis.

So, after several years of relative quiet, in 2007 the financial services again assumed center-stage in congressional politics. By February, the subprime mortgage crisis and the national wave of foreclosures – up by 42 percent in a year (CQ Weekly 2007, 1176) – had become a major story in national media coverage and Congress moved to respond. There were broadly three important legislative efforts: first, bills designed to tighten regulations on mortgage lenders; second, bills designed to offset the crisis in the mortgage market by increasing financing for mortgages for low- and middle-income buyers; and, third, further efforts to regulate Fannie Mae and Freddie Mac, the government-sponsored enterprises that dominated the secondary mortgage market. All three areas of legislation attracted concerted lobbying efforts by the financial services industry, though these efforts again served to illustrate that the alignment of interests engendered by the repeal of Glass-Steagall held firm.

There is no need here to lay out or debate the causes of the 2007 housing crisis and the subsequent financial crisis, but it is worth noting the analysis of the problem that dominated congressional debates in 2007. There was a general consensus that home buyers with insufficient means to qualify for conventional mortgages had been granted “subprime” loans by mortgage lenders who had failed to adopt formal qualifying standards, documentation requirements and assessments of the likelihood of the borrower being able to repay the loan. There was, of course, considerable disagreement on how much regulation was needed to prevent a recurrence of the problem and the American Bankers Association, among other lobby groups, warned that excessive interference would cause the market for mortgages for those with lower incomes to disappear (2007 Congressional Almanac, 7-5). The now Democrat-controlled Congress responded by drafting a bill, HR 3915, in the House Banking Committee that would require all mortgage lenders to be licensed, create a set of minimum standards for all mortgages and introduce liability for both the lenders and securitizers of mortgages if homeowners defaulted on mortgages that did not meet minimum standards. Despite the opposition of the lending industry and the Bush Administration, the bill attracted bipartisan support and was approved by the committee, 45-9, in early November (CQ Weekly 2007, 3416). The bill went to the floor a few days later and passed 291 votes to 127, with over sixty Republicans from the states hit hardest by mortgage foreclosures joining the Democratic majority (CQ Weekly 2007, 3487). A similar bill, S 2452, was introduced by Senate Banking Committee Chair Chris Dodd (D-CT) in December, but it saw no legislative action before the end of the session.

The second set of legislation was also a reaction to the explosion of the subprime mortgage market. The Federal Housing Administration's (FHA) original purpose had been to provide default insurance designed to make loan-making to lower-income borrowers more attractive. However, its ability to meet the needs of such borrowers had not kept pace with a rapid

increase in house prices that meant that the maximum loan size the FHA could insure was now lower than the minimum amount required to buy a home in some areas. As the alternative to a FHA-insured mortgage was often a subprime, Democrats in Congress were eager to restore the FHA's central role. HR 1852, passed by the Banking Committee 45-18 in May and then by the House 348-72 in September, increased the limit on FHA-insured loans to \$417,000 and made some additional provisions for high-cost areas (CQ Weekly 2007, 2774). The bill also provided for a proportion of the FHA surplus to be invested in an affordable housing fund, which was to be created in a separate bill, HR 2895, that was also being considered in the 2007 session. Despite the opposition of many Republicans, this second bill, which would distribute funds to local bodies to finance low-cost housing developments, cleared both the House Banking Committee (45 votes to 23 at the end of July) and the House floor (264 votes to 148 in mid-October). The affordable housing provision, however, set the bill on course for a collision with the equivalent Senate measure, which did not include such a measure and had the White House's support (CQ Weekly 2007, 3733). The Senate version of the bill cleared the Senate Banking Committee 20 votes to 1 on September 19 and was adopted by the full Senate 93-1 on December 14. However, no progress was made on reconciling the two chambers' bills by the end of the session.

Third, the House once again took up legislation to overhaul the regulation governing Fannie Mae and Freddie Mac. Extensive negotiation between House Banking Chair Barney Frank (D-MA) and the Bush Administration fueled optimism that a compromise between Congress and the White House, which had proved elusive in previous sessions, might be forthcoming (CQ Weekly 2007, 976). Indeed, a bill did clear the House Banking Committee and the House floor, but the dramatic events of August, which demonstrated how far-reaching the consequences of the subprime mortgage crisis were, greatly shifted the terms of the debate. The bill drafted by Frank, HR 1427, established a new independent regulator of the GSEs, as

demanding by the Bush Administration, and also managed to win support for contributing a proportion of the two firms' profits to an affordable housing fund of the type HR 2895 was designed to create. The bill cleared the Banking Committee, 45-19, on March 29 and then the House floor, 313-104, on May 22. Though there was some concern that floor amendments had weakened the ability of the new regulator to oversee the GSEs' activity, the Senate looked likely to take up the bill.

However, the "credit crunch" that emerged in August had the effect of suddenly altering the role that the Democratic majority envisaged for the GSEs. Where previously there had been much concern about the size of the two firms' investment portfolios, by the end of the year Frank was mooted the possibility of expanding rather than contracting Fannie and Freddie's investment portfolio caps to allow the two to invest in refinanced subprime loans (CQ Weekly 2007, 3634). Although this proposal went no further in the 2007 session, it demonstrated clearly how far the emerging crisis was changing the congressional agenda with respect to the financial services industry.

The crisis mentality that had begun to influence financial services policy in 2007 became the dominant driver of legislation in 2008. The result was a radical transformation of financial services lobbying. Where previously the industry – or its component parts – had approached the legislative process with a "shopping list" of priorities that it hoped might boost competitiveness or profitability, but with respect to which the industry could afford to take a medium- or long-term outlook, by the end of 2008 there was a single, urgent and even existential priority: government rescue of a financial system on the brink of collapse. Interestingly, the imminence of the threat facing the financial system appeared to complete the process that the repeal of Glass-Steagall had started: while individual firms might have mildly differing interests, the industry as a whole was extraordinarily united. In a year in

which the government bailed out, bought or rescued commercial banks, investment banks and insurance firms alike, the intra-industry divisions that had characterized the congressional politics of financial services industry throughout the second half of the twentieth century had never looked less relevant.

The legislative efforts of 2008 evolved constantly as the crisis accelerated. The regulatory overhaul of Fannie Mae and Freddie Mac, which had been stalled for several years, was given new urgency by the failure of Bear Stearns, the country's fifth largest investment bank, in March. Like its predecessor bills, HR 3221 provided for the creation of a new regulator for the GSEs and a new affordable housing fund. In addition, the foreclosure crisis had prompted the inclusion of measures designed to make it easier to refinance home loans and to create new tax incentives for home buyers. The Senate passed a version of the bill, 84-12, in April, while the House approved a draft with stronger affordable housing measures in May.

However, by the summer, with no progress toward reconciliation obvious, it became clear that the bill was insufficient to meet the scale of the crisis (CQ Weekly 2008, 1415). Then, on Sunday 20 July, Treasury Secretary Henry Paulson made a sudden announcement to the effect that the two mortgage giants were in danger of imminent collapse and he required urgent congressional authority to inject capital into or even take control of the GSEs. (CQ Weekly 2008, 3268). By the Wednesday of the next week, the House had approved, 272-152, a version of HR 3221 that provided the requested authority and an \$800 billion increase in the federal debt ceiling to finance it. The Senate cleared the same bill, 72 votes to 13, three days later. Though there remained considerable dissent, particularly from conservative Republicans, the growing sense of crisis pushed an apparently stalled bill into law within a week. Less than six weeks later, on September 7, the two firms had to be taken into conservatorship under the new law's provisions and the Treasury injected \$200 billion of fresh capital (ibid).

The collapse of the GSEs was the beginning of a flurry of dramatic events that pushed Congress toward even more dramatic intervention in the financial system by the beginning of October. Within weeks of the takeover of Fannie and Freddie, Lehman Brothers, the fourth-largest investment bank had gone bankrupt, and the government had bailed out the American International Group (AIG), an insurance firm with such far-reaching and extensive counterparty exposure that its collapse threatened to bring down the entire U.S. financial system. On the night of September 18, Paulson and Federal Reserve Chair Ben Bernanke met with leaders from both chambers and both parties and made an extraordinary request for authority to spend hundreds of billions of dollars to buy mortgage-backed securities from financial firms in an effort to shore up their balance sheets. (CQ Weekly 2008, 3270). After extensive negotiations, Congressional leaders agreed to introduce a bill that would ask for up to \$700 billion to fund the bailout. Although the bill, which was attached to HR 3997, a military tax relief effort, was drafted to include taxpayer safeguards, including the possibility of taking equity positions and restricting executive pay in bailed-out institutions, it met with determined opposition from both left and right. In dramatic scenes on September 29, despite the support of the White House, the Treasury, both sets of party leaders in Congress and the united financial services industry, the House narrowly rejected the bill, 208 votes to 225. Global equity prices fell further and two days later the Senate took up the bill, this time attaching it to HR 1424, a mental health parity bill. By adding incentives such as tax break extensions and a strengthening of federal deposit insurance, Senate leaders were able to secure passage, 74-25, on October 1 (ibid). The newly-passed measure was returned to the House, which had rejected it just days earlier, and, following intense lobbying and a growing realization of the severity of the threat, it passed 263 votes to 171 on October 3.

The passage of the bailout, of course, is very far from marking the end of the story: at the time of writing, while the global financial system appears free from the risk of imminent

collapse, the financial crisis continues, with many crucial indicators, such as the health of banks' balance sheets and the availability of credit, remaining at crisis levels. The wave of bailouts, however necessary, has only emboldened Congressional leaders, particularly those in the newly expanded Democratic majorities, to embark on new and rigorous regulation and re-regulation of the financial services industry. Numerous proposals have been floated – including, in some quarters, the re-imposition of Glass-Steagall-like restrictions (New York Times, March 6 2009, “Volcker: Split Commercial and Investment Banks”). What is fascinating, as we enter a new era in the congressional history of the financial services industry, is how the structure of interest group competition, itself at least partly a consequence of congressional action, will shape and be shaped by the new wave of regulatory efforts. As we have seen, the structure imposed on the industry has had profound consequences over the last two decades for the way legislation is lobbied and, ultimately, for what legislation is passed. One of the crucial questions, then, that will determine the outline of the regulatory structure that emerges from the current crisis, is whether the current unity in the industry – achieved first by commercial evolution, then by legislative action and finally by economic necessity – will hold or whether it will disintegrate in an increasingly challenging and dangerous environment.

I now turn to how the campaign contributions of the financial services industry interacted with the legislative developments of the twenty years between 1989 and 2008. Chapter two considers the micro-picture of which legislators financial services PACs from each of the three sub-sectors chose to favor and what characteristics were highly valued by PACs over time. Chapter three looks at the macro-picture of how intra-industry competition affects the overall pattern of campaign contributions and how changing interest group coalitions shape the contribution strategies of PACs.

## Chapter Two: Rational PACs and the Value of Committees

In this chapter I present models that illuminate the strategies of financial services PACs in their contributions to members of the U.S. House of Representatives between 1989 and 2008. Although there is a large body of scholarly work that explores “investor PAC” strategies, there are few that have done so for a single industry and no recent studies of financial services firms. However, this means that my approach requires some justification. Most work in the field of corporate PACs has aimed for generality, attempting to explain the behavior of broad categories of contributors, such as “business groups” or “labor unions” (see, for example, Snyder 1990, 1992, Grier and Munger 1991, 1993). While the sacrifice of generality entailed in limiting investigation to a single industry is significant, there seem to be at least three good reasons for adopting this approach. First, while political scientists have enjoyed considerable success in demonstrating that corporate PACs appear to behave strategically – for example, in contributing more to those congressmen who are most able to deliver legislative services – it has proved much more difficult to show what corporate PACs get in return for these contributions in terms of legislator behavior (see, for example, Ansolabehere, Figueiredo and Snyder 2003, Stratmann 2005). Certainly, there seems to be little evidence that “corporate” or “labor” contributions *broadly* influence a representative’s voting behavior such that it deviates from what might be expected given his or her party identification and constituency interests (Grier and Munger 1993). Where influence on voting behavior has been identified, it has been on narrow votes that tend to affect a single industry (Soraug 1992, Stratmann 1992, Stratmann 2005). Consequently, if we care about PAC strategies because we care, ultimately, about what the consequences of these strategies are for public policy, it seems plausible that looking at corporate PAC strategies broadly is looking in the wrong place. If it is at the industry (or lower) level that corporate contributions exert legislative influence, then it follows that political scientists ought to understand the strategies

of individual industries of interest as deeply as we understand those of the business world broadly defined.

Second, considering corporate PACs as a monolithic category misses the important ways industry and sector subgroups cooperate and compete with one another within the political environment. Business groups do not have unitary interests and much important work suggests that interest group competition has a powerful effect on American politics (Baumgartner and Leech 2001, Hacker and Pierson 2009). This seems a particularly important consideration within the financial services industry during the period since 1989, because – as discussed in the first chapter – the highest policy priority of the commercial banks was opposed to that of securities firms and insurance firms for much of the period. As the political strategies of financial services firms (presumably) both aim to shape and are shaped by the regulatory environment, it seems important to understand the different and competing strategies adopted by different sectors within the industry: if it is the case that commercial banks contribute in very different ways than insurance firms, that might have important implications for the kind of regulatory environment that emerges from the legislative process.

Third, the financial services industry is currently perhaps the most politicized industry in the United States. Particularly, it has been the subject of the criticism, made by politicians, the press and academics (for example, Hacker and Pierson 2009), that a combination of lax regulation and the excessive political influence of the industry facilitated the financial crisis that emerged in 2007 and the subsequent economic recession. In this context it seems important to study the financial services industry as a separate entity rather than considering only as part of the wider business community.

This chapter, then, presents two different types of model to illuminate the strategies adopted by financial services PACs in the period since 1989. First, I present a model that takes the summed contributions to members of the House from financial services PACs as its dependent variable. I estimate separate models for contributions from the industry as a whole, contributions from commercial banks, contributions from investment banks and securities firms and contributions from insurance firms and for the period before and after the abolition of the Glass-Steagall regulations (see first chapter). Second, in order to provide greater insight into how financial services firms value various committee positions in the House, I present a model that demonstrates how financial services PACs respond to legislators who switch into or out of key committees during their House tenure. I take as dependent variables the number of PACs choosing to begin giving to a legislator, the number of PACs deciding to cease giving, and the total change in the level of giving by financial services firms. In each case, I disaggregate the dependent variables by both sub-sector and time period.

I begin, however, by reviewing the current literature on corporate PAC strategies generally and considering how its insights might apply to the financial services industry specifically.

### **The idea of an “investor” PAC**

Almost all candidates for political office need to raise money to fund their campaigns and almost all enjoy several options as they seek financing. As Ansolabehere, Figueierdo and Snyder (2003) show, PAC contributions represent only a small fraction of the total amount spent and raised in U.S. election campaigns. Over four-fifths of contributions come from individuals, with the rest coming from PACs. However, the sources of this remaining twenty percent are far from homogeneous. As well as corporate PACs, we can identify money from labor unions, trade associations, single interest membership organizations and ideological groups. Past scholarship on campaign contributions, however, has tended to divide donations

into three main groups: those from individuals, those from “ideological PACs” and those from “investor PACs” (e.g. Snyder 1990, 1992). The latter category encompasses money from any groups such as corporations and labor unions whose primary purpose is to advance a particular economic interest. The distinction is important because we would expect each type of PAC to have different motivations and so pursue different strategies in their giving. Ansolabehere, Figueierdo and Snyder (2003) suggest that most individual giving is “consumption” giving, much like donating to charities; that is, the individual likely expects little or no financial return on his or her contribution.

It seems less plausible, however, that PACs behave in this way. On the one hand, the scholarly consensus is that the primary motivation of ideological PACs, such as Emily's List or the Club for Growth, is altering the composition of Congress (Grier and Munger 1991, Snyder 1992). We would therefore expect such groups to target their contributions where they can be most electorally influential. On the other hand, PACs representing corporations, labor unions and other economic interests have generally been termed “investor” PACs. We would expect these groups to contribute in such a way as to generate the greatest possible return on their investment. Most studies have seen investor PACs as less interested in the composition of Congress *per se* and more interested in policy outcomes: sometimes better policy outcomes might be effected by supporting challengers whose views align with those of the PAC's parent organization, but the evidence suggests that more often PACs appear to be attempting to influence existing members of Congress. Much more money from investor PACs flows to incumbents than to challengers (Brunnell 2005).

The intellectual origins of this view of investor PACs lie in the literature on the economics of regulation. Stigler (1971), Peltzman (1976) and Becker (1984) advance theories in which there exists a frictionless market in regulation, with interest groups bidding for favorable

treatment from politicians. Political scientists have adapted these models and found that the notion of campaign contributions from investor PACs as an “asset market for favors” fits the data remarkably well (Snyder 1990, 1992): investor PACs seem to give in a rational, predictable way, as though they are securing a good return on their investment.

The great problem in the literature is that it has proved extremely difficult to pin down exactly what this return is and where it can be observed. Countless studies have searched for the influence of PAC contributions on roll call voting (for reviews see Sorauf 1992, Ansolabehere, Figueierdo and Snyder 2003) and found very little evidence of this kind of persuasive effect. Identifying this sort of effect is fraught with methodological difficulty: if PAC contributions are correlated with roll call votes, is it because PACs give to members of Congress who share their views or because receiving donations from PACs alters those views (see Chappell 1981)? Where roll call influence has been detected, it has tended to be on votes that have little visibility (Sorauf 1992) or very narrow impact (Stratmann 1992). Interestingly, one of the few episodes of recent congressional history in which the direct effect of PAC contributions has been identified is the repeal of the Glass-Steagall regulations in 1999 (Stratmann 2002), which I discuss in greater detail in chapter one.

Some work has challenged the notion that we should expect to see the influence of PACs in roll call voting. Both Fenno (1978) and Mayhew (1974) argue that the congressman's most valuable resource is not his or her vote but his or her time. Consequently, it has become increasingly common to argue that PACs buy access to congressmen, particularly at the committee stage of the legislative process, rather than switches from “Yea” to “Nay” and vice versa (see Hall and Wayman 1990; Ansolabehere, Snyder and Tripathi 2002). There have been few conclusive results, however, so while it has been easy for political scientists to label

PACs as rational in their strategies, it has been much harder to say what exactly they are rational *about*.

Nevertheless, studies of patterns of contributions from investor PACs have identified numerous characteristics of legislators that seem to have a significant influence on the level of contributions they receive from investor PACs. To use the vocabulary of the “market in favors” literature, whatever services it is that PACs get in return for their contributions, it appears that certain characteristics allow some legislators to deliver these more efficiently or at lower cost than others. Investigating whether the characteristics associated with higher contributions from financial services PACs are the same as those associated with higher corporate PAC contributions generally is an important first step toward a deeper understanding of the congressional politics of the financial services industry. Consequently, I now review the literature’s most important findings on the subject.

**Party:** Scholars have generally found that party has had a significant effect on the level of corporate PAC contributions a legislator receives. As Grier and Munger (1993) note, there are two ways in which we might expect a member of Congress's party to be relevant to an investor PAC. First, majority party status may matter. Members of the majority party in both House and Senate may be able to deliver favors more easily (that is, at lower cost) than members of the minority. There is some evidence that this effect is more pronounced in the House than in the Senate, because the institutional powers available to the minority are much stronger in the latter chamber (Grier and Munger 1993). However, much of the most cited research was produced at a time when each chamber had been dominated by a single party for a considerable length of time. Consequently, it was difficult for the authors to disentangle the importance of majority party status from a second effect – PACs' ideological preference for one party or the other. Although formal theory predicts that PACs are merely “policy

maximizers” (Brunnell 2005) with no *partisan* preference for Republicans or Democrats, it seems likely that party identification is strongly correlated with the ability to deliver particular policy favors to corporate PACs. For example, a Democratic congressman with a very liberal primary constituency will find it much more costly to provide deregulation “services” than a comparable Republican. Brunnell (2005) further suggests that we observe partisan preference even among PACs that primarily pursue an “access” strategy when we examine the electoral impact of their contributions. Almost all studies published in the 1990s find that corporate interests contribute significantly more money to Republicans than to Democrats in both House and Senate (Snyder 1992, 1993; Grier and Munger 1993, Ansolabehere and Snyder 1999). As there was a change in majority party control in both chambers during the 1998-2008 period, it should be possible to estimate the effect of partisan identification and majority party status separately in this study.

***Constituency preferences:*** Grier and Munger (1993) argue that it is a legislator's voting record that influences the level of PAC money and not the other way around, at least when we look at votes in the aggregate. While it is possible that on narrowly defined, heavily lobbied issues, contributions may influence votes (Stratmann 1992, Stratmann 2005), there is no evidence to date of a member of Congress's overall voting record being swayed by PAC money. This is unsurprising if we believe that re-election is every legislator's principal goal and that money is just one electoral resource that can increase his or her share of the vote. The other obvious resource is the quality of the legislator's representation of his or her constituents' interests. It may be that these two resources are substitutable to some extent, but it seems clear that members of Congress will be loath to create voting records that starkly run against the preferences of their districts. There presumably comes a point at which no amount of additional campaign finance is sufficient safeguard against having acted against constituency interests (Grier and Munger 1991). Consequently, members of Congress whose

districts are already sympathetic to a PAC's goals, usually because of high levels of employment in the relevant industry, will be able to provide services to PACs at a relatively low cost. We would therefore expect legislators whose districts are home to large banking or insurance firms to attract higher levels of contributions from these PACs.

***Electoral safety:*** The delicate balancing act between raising funds from organized interests and satisfying the preferences of a district points to another variable that scholars have consistently found to exert significant influence on the level of PAC contributions to a legislator. In general, we observe that the most electorally vulnerable incumbents raise more money from PACs than their more secure counterparts (though see Wright 1985 for a dissenting view). As Ansolabehere, Snyder and Tripathi (2002) note, this is *not* a result of the motivations of the PACs themselves, but a result of the motivations of the incumbents: vulnerable legislators want to raise more money, so are willing to sell more “units” of service to interest groups. Snyder (1990) and Grier and Munger (1991) also find support for the idea that vulnerable members effectively either lower the cost of the services PACs require or sell more “units” of these services. We might in general label such considerations, which concern legislator rather than PAC preferences, “demand” effects. Separating legislators' demand for money from PACs' supply of it represents a critical task in understanding PAC motivations. The weight of scholarly work thus far suggests that these effects are much stronger in the House than in the Senate. Snyder (1993) finds that demand considerations are not important in most Senate races – that is, the level of PAC contributions is determined entirely by the preferences of PACs and is invariant to state population, income and education. Ansolabehere and Snyder (1999) find even stronger evidence for this phenomenon in the Illinois State Senate, where incumbents who are not up for re-election in a given cycle raise as much or more money than their counterparts who are. It seems that U.S. Senators have a ready supply of individual contributors to meet their demand for campaign funds (Ansolabehere and

Snyder 1999, Ansolabehere, Figueierdo and Snyder 2003) and so their PAC receipts appear to be driven largely by their ability to deliver favors in the chamber.

***Committees and leadership positions:*** In attempting to determine what makes a legislator more able to deliver the kind of services PACs demand, political scientists have tended to focus on committee assignments and leadership positions. There is a longstanding literature that predicts and demonstrates the very strong powers, particularly relating to agenda setting and gatekeeping, that committees enjoy within their jurisdiction (e.g. Shepsle and Weingast 1987, Weingast and Marshall 1988). It therefore seems likely that legislators who sit on powerful committees will be able to deliver services to PACs more efficiently than those who do not. There is a great deal of evidence that corporate PACs tend to contribute more to members of committees with oversight of their industry (Eisneier and Pollock 1988, Munger 1988) and to members of the most powerful committees, such as Ways and Means or Commerce, generally (Grier and Munger 1991). One difficulty is establishing the effect of committee service on PAC contributions is that committee assignments tend to be strongly correlated with other characteristics that might influence donations. For example, as Fenno (1973) argued, committee assignments tend to reflect the interests of a legislator's constituents. So if we find that members of the House Banking Committee receive a higher level of contributions from banking PACs, it may not be obvious whether this is because of the powers of the banking committee or because both the committee assignment and the contributions are driven by a high level of financial services employment in the district. However, Romer and Snyder (1994) evade this difficulty by looking at the effect of *changes* in committee assignments on *changes* in PAC contributions. They find that powerful committee seats matter to corporate PACs generally and that seats on the House Banking Committee matter to financial services PACs specifically. Here I replicate and extend their analysis by looking at which committee assignment financial services firms have valued in

the period since 1989 and by considering changes in the total level of contributions, as well as in the number of PACs contributing.

Just as PACs seem to value committee membership because it enhances a legislator's ability to deliver valuable services, so they appear to value leadership positions in both chambers. A long line of scholarly work has concluded that committee chairs and the majority and minority leadership attract higher levels of contributions than more junior members. Romer and Snyder (1994) find that committee chairmanships carry an incremental benefit, over and above the level of contributions associated with committee membership, while Ansolabehere, Snyder and Tripathi (2002) report that holding party leadership positions attracts a significant financial premium.

**Seniority:** Political scientists have discovered that the length of tenure has complex effects on the level of contributions received from investor PACs. There are several reasons to believe that rational PACs might consider a legislator's seniority relevant. First, Grier and Munger (1993) suggest that freshmen congressmen receive disproportionately high levels of contributions, probably because in the first term of office there is much more uncertainty about what positions a legislator will take, so it is much less obvious to PACs whether or not the member is a likely ally. Second, by contrast, more senior members tend to have more expertise and experience, so will tend to be able to deliver services more efficiently. Third, seniority, especially in the House, is strongly linked to the probability of assuming committee leadership positions. If PACs are rational long-term investors (Snyder 1992), then as discussed above we might expect to see PACs contribute to more senior members in order to build long-term relationships with future holders of powerful office. We might therefore expect to see contributions reach a high level for freshmen, fall off in the second term and then rise with seniority over the course of a congressional career.

## **Hypotheses**

As discussed in chapter one, beginning with a detailed history of the congressional politics of the financial services industry over the last twenty years allows the formation of specific hypotheses about the contribution strategies of PACs. Particularly, it allows us to hypothesize about how those strategies vary across industry sub-sectors and across time. As suggested, my main concern here is the value placed on committee service by financial services firms, as this touches the question of the “market for legislative favors” most directly.

The most obvious hypothesis suggested by the account in chapter one is that service on the House Banking Committee is associated with a higher level of contributions from all kinds of financial services firm, as this committee is most directly involved with relevant legislation. We would also expect to see membership of the House Commerce and Ways and Means committees highly valued, the former for its role in financial services-specific legislation during the period and the latter for its oversight over many matters connected to corporate interests broadly. We would therefore expect positive and significant coefficients on all three committee variables in the static model. Correspondingly, in the dynamic model we would expect, first, more financial services PACs to give to legislators who switch into any of the three committees in the next electoral cycle and, second, for financial services PACs to increase their contributions in dollar terms in the cycle after the switch. Similarly, we would expect legislators who switch out of the House Banking Committee to receive contributions from fewer PACs and to receive fewer financial services dollars generally in the cycle after the switch.

Second, we would expect these results to vary across industry sub-sectors. The account in chapter one suggests that commercial banking PACs will value the House Banking Committee most highly, as members of this committee tended to be stronger allies of the

commercial banks than of the securities and insurance lobbies during the Glass-Steagall era. However, we would expect membership of the Commerce committee, which on a number of occasions acted as a “veto point” in favor of the securities and insurance firms during the attempt to repeal Glass-Steagall, to be more highly valued by these groups.

Third, we would expect variation over time. Specifically, we would expect the value of membership of the House Banking Committee to increase and the value of membership of the Commerce Committee to fall after the repeal of Glass-Steagall. As suggested in chapter one, the value of the Commerce Committee was highest to securities and insurance firms when it had the potential to act as a block to the repeal of Glass-Steagall; once it could no longer perform this function, we would expect these sub-sectors to shift resources away from the Commerce Committee and toward the Banking committee, the jurisdictional claims of which were no longer in dispute.

## **Results**

The first model, reported in table 2.1, takes as its dependent variable the summed contributions made by financial services PACs to members of the U.S. House of Representatives in each electoral cycle between 1989 and 2008. The unit of analysis is therefore dollars per legislator per cycle. All contributions are measured in 2008 dollars. I estimate separate models for contributions for the industry as a whole and for each of its three major component subsectors. As contributions from a PAC to a legislator are effectively censored at zero – that is, a PAC cannot give less than zero dollars to a member of Congress, however much it might like to – I employ a Tobit model (see, for example, Maddala 1983). Each model includes electoral cycle dummies to control for cycle-specific effects, though these coefficients are not reported in the tables.

I obtained the data on contributions from returns filed by candidates and PACs with the Federal Election Commission<sup>2</sup> and categorized the PACs by industry sub-group using the schema developed by the Center for Responsive Politics.<sup>3</sup> Data on seniority and committee and leadership assignments are from Charles Stewart and Jonathan Woon; NOMINATE scores from the dataset compiled by Keith Poole and Howard Rosenthal; employment data are my extrapolations to the congressional district level from the U.S. Census County Business Patterns dataset; and election returns come from the Clerk of the House of Representatives.<sup>4</sup>

---

<sup>2</sup> See <http://www.fec.gov/finance/disclosure/ftpdet.shtml>

<sup>3</sup> See <http://www.opensecrets.org>

<sup>4</sup> Charles Stewart III and Jonathan Woon. Congressional Committee Assignments, 103rd to 110th Congresses, 1993—2007; Keith Poole and Howard Rosenthal, <http://www.voteview.com>; [www.census.gov/epcd/cbp/view/cbpview.html](http://www.census.gov/epcd/cbp/view/cbpview.html); <http://clerk.house.gov>

<u>1989-2008</u>	<u>All</u>			<u>Banks</u>			<u>Securities</u>			<u>Insurance</u>		
<i>Constant</i>	0.177 (0.052)	***		0.043 (0.018)	*		-0.052 (0.02)	***		0.111 (0.028)	***	
<i>Freshman</i>	0.018 (0.023)			0.017 (0.008)	*		0 (0.009)			0.018 (0.012)		
<i>NOMINATE</i>	0.348 (0.049)	***		0.175 (0.017)	***		0.08 (0.018)	***		0.149 (0.026)	***	
<i>Last Vote</i>	-0.232 (0.052)	***		-0.055 (0.018)	***		-0.078 (0.02)	***		-0.134 (0.028)	***	
<i>Democrat</i>	0.159 (0.039)	***		0.091 (0.014)	***		0.063 (0.015)	***		0.038 (0.021)		
<i>Majority</i>	0.072 (0.016)	***		0.014 (0.006)	*		0.032 (0.006)	***		0.038 (0.009)	***	
<i>HBC Member</i>	0.634 (0.034)	***		0.281 (0.012)	***		0.189 (0.012)	***		0.221 (0.018)	***	
<i>HBC Chair</i>	0.612 (0.129)	***		0.139 (0.045)	***		0.22 (0.047)	***		0.254 (0.069)	***	
<i>HBC Seniority</i>	0.01 (0.008)			0.006 (0.003)	*		0.007 (0.003)	*		-0.003 (0.004)		
<i>Commerce Member</i>	0.322 (0.037)	***		0.074 (0.013)	***		0.134 (0.014)	***		0.174 (0.02)	***	
<i>Commerce Chair</i>	0.923 (0.138)	***		0.123 (0.048)	*		0.376 (0.05)	***		0.484 (0.074)	***	
<i>Commerce seniority</i>	-0.018 (0.007)	*		-0.006 (0.002)	***		-0.004 (0.003)			-0.009 (0.004)	*	
<i>W&amp;M Member</i>	0.838 (0.046)	***		0.142 (0.016)	***		0.253 (0.017)	***		0.525 (0.025)	***	
<i>W&amp;M Chair</i>	0.398 (0.135)	***		0.101 (0.048)	*		0.217 (0.049)	***		0.1 (0.073)		
<i>W&amp;M Seniority</i>	-0.015 (0.008)			-0.011 (0.003)	***		-0.006 (0.003)			-0.003 (0.004)		
<i>Leader</i>	1.359 (0.071)	***		0.343 (0.025)	***		0.462 (0.026)	***		0.619 (0.038)	***	
<i>Bank Employment</i>	0.125 (0.046)	***		0.116 (0.016)	***		0.043 (0.017)	*		-0.017 (0.025)		
<i>Securities Employment</i>	0.006 (0.027)			-0.032 (0.01)	***		0.035 (0.01)	***		0.005 (0.015)		
<i>Insurance Employment</i>	0.106 (0.024)	***		0.006 (0.008)			-0.002 (0.009)			0.111 (0.013)	***	

**Figure 2.1:** TOBIT model of contributions from financial services PACs to members of the U.S. House per electoral cycle, 1989-2008, in 100,000s of 2008 dollars. Standard errors in parentheses. N = 4399.

\*\*\*:  $p < 0.001$  \*\*:  $p < 0.01$  \*:  $p < 0.05$

Several results are worthy of comment. First, as predicted, financial services firms make significantly higher contributions to members of the House Banking Committee (or House Financial Services committee: the name changed during the period of interest). On average, members of the committee received \$63,000 more per cycle from financial services PACs than congressmen who did not sit on the committee. As the average summed level of contributions across the period for all members of the House is \$47,000 per cycle, this increment is both substantially and statistically significant. The degree of the additional contributions varies across the financial services subsectors: banks gave committee members an average of \$28,000 more than non-members, investment banks gave \$18,000 more and insurance firms \$22,000 more. These figures represent 183%, 177% and 101% respectively of each sectors average level of contributions across all congressmen, which suggests that service on the House Banking Committee has been seen as relatively more valuable to banks and investment banks than to insurance firms, perhaps because of the broader business interests of the insurance sector.

This difference is perhaps also reflected in the relative value placed by each kind of PAC on membership of the House Ways and Means and Commerce (sometimes "Energy and Commerce") committees. Financial services PACs on average gave an additional \$84,000 per cycle to members of the Ways and Means committee relative to non-members and an additional \$32,000 per cycle to members of the Commerce committee, again relative to non-members. Interestingly, this suggests that financial services PACs valued a seat on the Ways and Means committee more than one on the Banking committee. However, when I estimate separate models for each sector of the industry, it seems that a large portion of the favorable treatment of members of Ways and Means is attributable to the insurance sector. On average, insurance PACs gave Ways and Means members an additional \$53,000 per cycle, compared

to \$14,000 and \$25,000 for commercial banks and investment banks respectively. A similar pattern emerges for the Commerce committee, whose members received an average of \$7,400 per cycle more than non-members from commercial banks, \$13,000 per cycle more from investment banks and \$17,000 more from insurance firms.

It is interesting, then, that firms from the three sectors appear to value different kinds of committee service very differently. Further illumination of this finding is obtained by breaking down the model by time as well as by sector (see tables 2.2 and 2.3). Between 1989 and 1998, in the period before the repeal of Glass-Steagall, commercial banks gave an additional \$28,000 on average to members of the Banking committee relative to non-members, while investment banks and insurance firms gave an average of just \$6,500 and \$8,400 more respectively. However, as hypothesized, in the later period from 1999 to 2008, once the strict dividing walls between financial services firms imposed by Glass-Steagall had been removed, giving by the different sectors is much more similar: commercial banks gave an average of \$26,000 more to Banking committee members, investment banks \$25,000 more and insurance firms \$31,000 more. By contrast, giving behavior to members of the Ways and Means and Commerce committees looks fairly similar before and after the repeal of Glass-Steagall, although the value of a seat on the Commerce committee does appear to have declined to some extent (Collectively, financial services firms gave an additional \$43,000 on average to members in the earlier period, but only an additional \$22,000 in the later one).

<u>1989-1998</u>	<u>All</u>		<u>Banks</u>		<u>Securities</u>		<u>Insurance</u>	
<i>Constant</i>	0.254 (0.057) ***		0.059 (0.024) *		-0.019 (0.018)		0.159 (0.032) ***	
<i>Freshman</i>	0.022 (0.026)		0.014 (0.011)		0.001 (0.008)		0.018 (0.014)	
<i>NOMINATE</i>	0.237 (0.056) ***		0.17 (0.024) ***		0.01 (0.018)		0.086 (0.032) ***	
<i>Last Vote</i>	-0.193 (0.06) ***		-0.067 (0.025) ***		-0.026 (0.019)		-0.111 (0.034) ***	
<i>Democrat</i>	0.059 (0.044)		0.086 (0.019) ***		0.003 (0.014)		-0.019 (0.025)	
<i>Majority</i>	0.073 (0.019) ***		0.011 (0.008)		0.033 (0.006) ***		0.041 (0.011) ***	
<i>HBC Member</i>	0.392 (0.043) ***		0.276 (0.018) ***		0.065 (0.013) ***		0.084 (0.024) ***	
<i>HBC Chair</i>	-0.83 (0.172) ***		-0.495 (0.072) ***		-0.277 (0.055) ***		-0.125 (0.097)	
<i>HBC Seniority</i>	0.043 (0.01) ***		0.027 (0.004) ***		0.016 (0.003) ***		0.002 (0.005)	
<i>Commerce Member</i>	0.434 (0.049) ***		0.118 (0.021) ***		0.152 (0.015) ***		0.211 (0.027) ***	
<i>Commerce Chair</i>	1.148 (0.171) ***		0.194 (0.072) ***		0.371 (0.051) ***		0.632 (0.096) ***	
<i>Commerce seniority</i>	-0.025 (0.01) *		-0.011 (0.004) ***		-0.003 (0.003)		-0.013 (0.006) *	
<i>W&amp;M Member</i>	0.782 (0.055) ***		0.132 (0.023) ***		0.192 (0.017) ***		0.513 (0.031) ***	
<i>W&amp;M Chair</i>	0.073 (0.163)		0.01 (0.071)		0.094 (0.049)		-0.04 (0.091)	
<i>W&amp;M Seniority</i>	-0.018 (0.01)		-0.012 (0.004) ***		-0.001 (0.003)		-0.009 (0.006)	
<i>Leader</i>	1.212 (0.084) ***		0.332 (0.035) ***		0.328 (0.025) ***		0.602 (0.047) ***	
<i>Bank Employment</i>	0.046 (0.064)		0.079 (0.027) ***		0.014 (0.02)		-0.051 (0.036)	
<i>Securities Employment</i>	0.018 (0.042)		-0.032 (0.017)		0.036 (0.013) ***		0.02 (0.023)	
<i>Insurance Employment</i>	0.1 (0.029) ***		0.013 (0.012)		-0.001 (0.009)		0.099 (0.016) ***	

**Figure 2.2:** TOBIT model of contributions from financial services PACs to members of the U.S. House per electoral cycle, 1989-1998, in 100,000s of 2008 dollars. Standard errors in parentheses. N = 2200.

\*\*\*:  $p < 0.001$  \*\*:  $p < 0.01$  \*:  $p < 0.05$

<u>1999-2008</u>	<u>All</u>		<u>Banks</u>		<u>Securities</u>		<u>Insurance</u>	
<i>Constant</i>	0.14 (0.082)		-0.006 (0.024)		-0.012 (0.033)		0.068 (0.044)	
<i>Freshman</i>	0.021 (0.039)		0.02 (0.012)		0.001 (0.015)		0.022 (0.021)	
<i>NOMINATE</i>	0.466 (0.079) ***		0.173 (0.024) ***		0.156 (0.032) ***		0.226 (0.042) ***	
<i>Last Vote</i>	-0.284 (0.083) ***		-0.057 (0.025) *		-0.151 (0.033) ***		-0.153 (0.044) ***	
<i>Democrat</i>	0.294 (0.07) ***		0.096 (0.021) ***		0.14 (0.028) ***		0.123 (0.037) ***	
<i>Majority</i>	0.1 (0.03) ***		0.022 (0.009) *		0.042 (0.012) ***		0.051 (0.016) ***	
<i>HBC Member</i>	0.755 (0.05) ***		0.262 (0.015) ***		0.253 (0.019) ***		0.305 (0.026) ***	
<i>HBC Chair</i>	1.815 (0.188) ***		0.61 (0.055) ***		0.637 (0.071) ***		0.596 (0.099) ***	
<i>HBC Seniority</i>	0.007 (0.011)		-0.004 (0.003)		0.009 (0.004) *		0.002 (0.006)	
<i>Commerce Member</i>	0.22 (0.054) ***		0.039 (0.016) *		0.099 (0.021) ***		0.141 (0.029) ***	
<i>Commerce Chair</i>	0.638 (0.207) ***		0.057 (0.062)		0.336 (0.079) ***		0.312 (0.109) ***	
<i>Commerce seniority</i>	-0.008 (0.009)		-0.003 (0.003)		-0.002 (0.004)		-0.004 (0.005)	
<i>W&amp;M Member</i>	0.89 (0.071) ***		0.15 (0.021) ***		0.301 (0.027) ***		0.538 (0.038) ***	
<i>W&amp;M Chair</i>	0.725 (0.211) ***		0.155 (0.063) *		0.331 (0.081) ***		0.263 (0.111) *	
<i>W&amp;M Seniority</i>	-0.011 (0.012)		-0.01 (0.004) ***		-0.008 (0.005)		0.003 (0.006)	
<i>Leader</i>	1.515 (0.111) ***		0.35 (0.033) ***		0.595 (0.042) ***		0.641 (0.059) ***	
<i>Bank Employment</i>	0.181 (0.065) ***		0.156 (0.019) ***		0.057 (0.025) *		0.003 (0.034)	
<i>Securities Employment</i>	-0.016 (0.036)		-0.03 (0.011) ***		0.032 (0.014) *		-0.016 (0.019)	
<i>Insurance Employment</i>	0.133 (0.037) ***		0.006 (0.011)		0.002 (0.014)		0.133 (0.019) ***	

**Figure 2.3:** TOBIT model of contributions from financial services PACs to members of the U.S. House per electoral cycle, 1999-2008, in 100,000s of 2008 dollars. Standard errors in parentheses. N = 2199.

It is worth noting that this trend cannot simply be explained as the consequence of the convergence of the business practices of the three sectors. Not only do there remain significant differences between the revenue sources of the three types of firms (U.S. Census Bureau 2007), but the repeal of Glass-Steagall primarily represented a victory for commercial banks over securities and insurance firms, not the other way around: commercial banks had long been lobbying to allow to sell securities and investment services; there was little clamor, however, from other financial services firms to be allowed to enter commercial banking. The change in contribution patterns is therefore unlikely to be simply a reflection of distinctions between the sectors breaking down: if that were the case, we would expect that the victorious commercial banks would begin giving more heavily to members of the committees with jurisdiction over their new businesses. In fact, as predicted above, we see the opposite trend, most notably in the Commerce committee's decline in importance for financial services firms. Perhaps a more plausible explanation is that the pattern of contribution in which different sectors favored different House committees before 1999 was the consequence of the prolonged struggle between interest groups over the repeal of Glass-Steagall. Commercial banks, on the one hand, and securities and insurance firms, on the other, were arrayed against each other in this battle, so it makes sense that their contribution patterns would reflect their different approaches to the conflict. As the discussion in chapter one suggests, one reason that banking regulation overhaul took so long to enact was that there existed so many veto points in the House, particularly the jurisdictional conflict between the Banking and Commerce committees. For securities and insurance firms, enjoying strong support on the Commerce committee was crucial, because that committee could plausibly claim jurisdiction over aspects of banking reform and so block Glass-Steagall's repeal but was not so dominated by representatives of districts with strong commercial banking interests as was the Banking committee. It seems plausible, then, that once deadlock in Congress was broken and Glass-

Steagall was repealed, the value of the Commerce committee as a veto agent was much lower for securities and insurance firms and, consequently, they began to focus much more on the Banking committee, their primary regulating committee.

In order to capture these trends at a more granular level, I re-estimated the model separately for each electoral cycle since 1989. I do not report full results for these regressions for reasons of space, but in figures 3.1 to 3.3, I plot the implied average additional contribution to members of the House Banking, Ways and Means and Commerce committees respectively, disaggregated by financial sector. The smaller sample sizes for these estimates, as well as their highly cycle-contingent nature, means that caution is needed in interpreting them. Nevertheless, they clearly illustrate the trends in the strategic value placed by financial services firms on the three committees during the period in question.

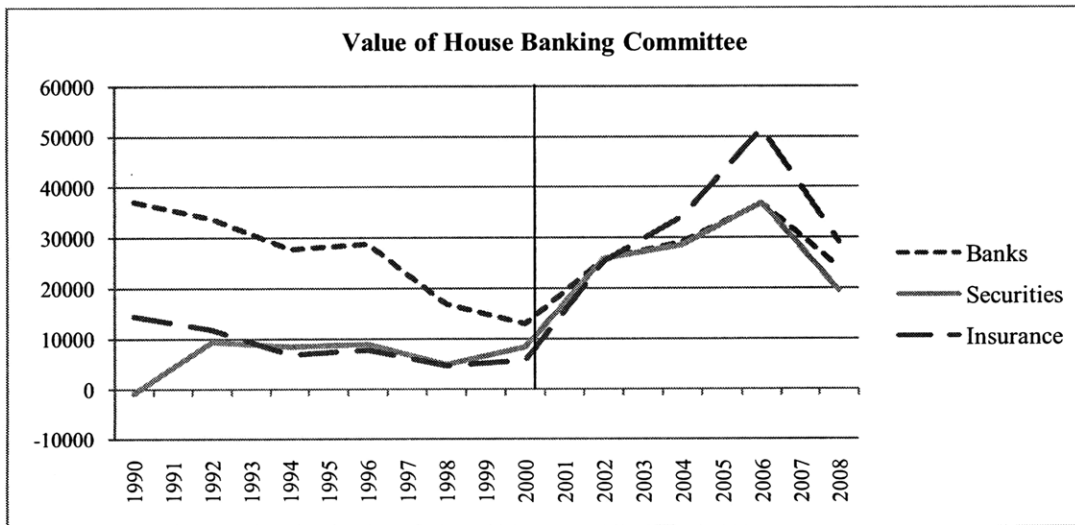


Figure 2.1: Implied value of a seat on House Banking Committee in 2008 dollars, 1989-2008

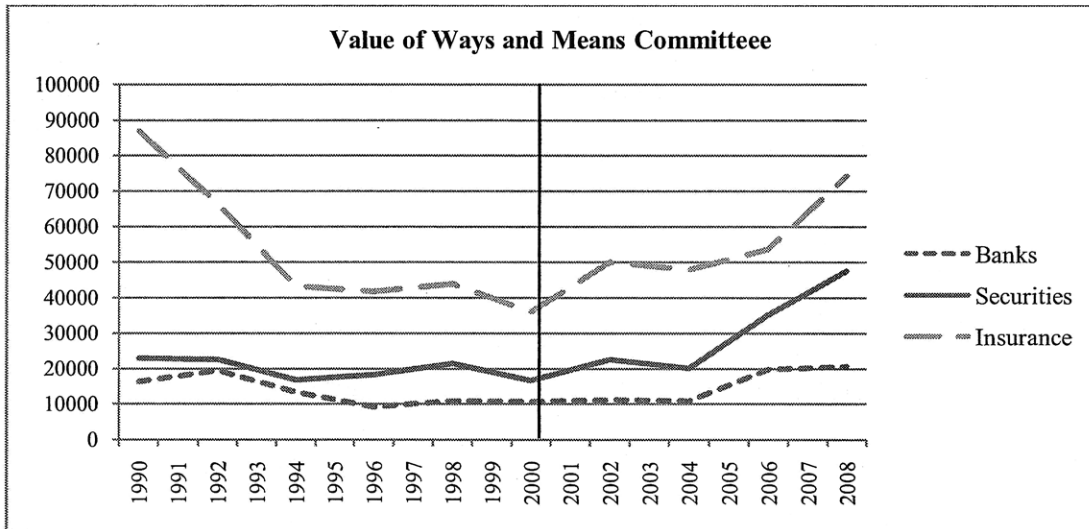


Figure 2.2: Implied value of a seat on House Ways and Means Committee in 2008 dollars, 1989-2008

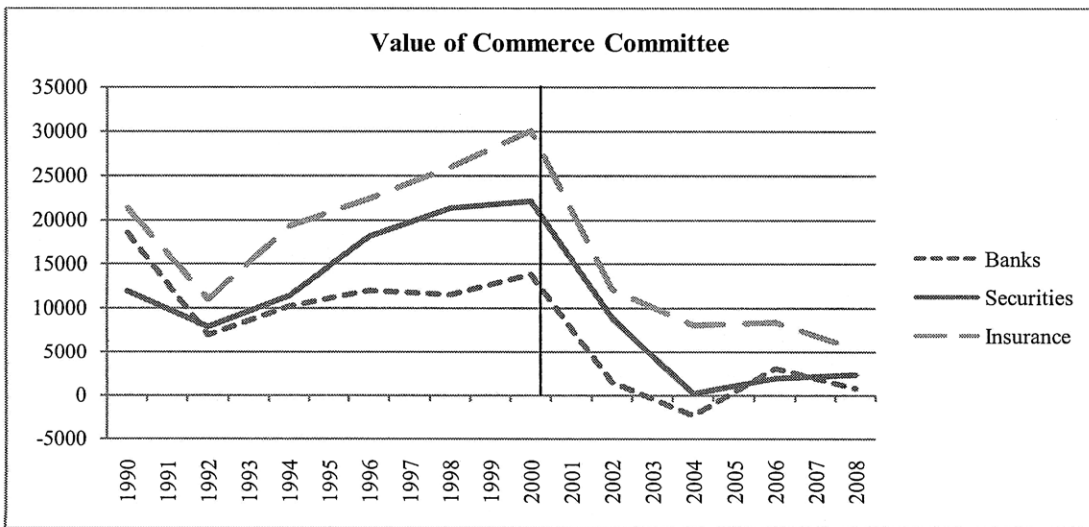


Figure 2.3: Implied value of a seat on House Ways and Means Committee in 2008 dollars, 1989-2008

These results reinforce the impression given by the pre- and post-Glass-Steagall repeal models. While giving by commercial banks to members of the Banking committee remains roughly stable throughout the period – indeed, in real terms, I estimate that commercial

banking PACs valued a committee seat at almost exactly the same level in 1990 and in 2006 – contributions to members by securities and insurance firms rose steeply after the repeal of Glass-Steagall. The corresponding opposite trend for members of the Commerce committee is visible in Figure 3.3: the additional contributions made to a member of the commerce committee fell precipitously after the repeal of Glass-Steagall, though somewhat less dramatically, because from a lower base level, among commercial banking PACs.

One problem with this approach to measuring the value to PACs of committee seats is that because committee assignment is not random, it is possible that the characteristics that cause legislators to win seats on a committee are also the characteristics that cause PACs to give them higher contributions. Most obviously, it seems plausible that having a large number of constituents who work in the financial services sector might drive both assignment to the House Financial Services committee and the contributions of financial services PACs. I attempt to control for this particular concern by including an independent variable that measures district employment by the financial services sector. However, there are likely other characteristics that are unobserved or immeasurable that could be driving both assignment and contributions. In order to achieve a greater degree of confidence that financial services PACs are valuing committee service for its own sake – that is, for the legislative power, information or expertise that it grants – rather than that they simply favor the kind of legislators who end up sitting on the committee, I conduct an additional analysis using an alternative approach after Romer and Snyder (1994). Rather than looking simply at the total contributions received each cycle by members and non-members of the committee, I consider how changes in committee assignment affect the contributions received.

The advantage of this approach is that it allows the isolation of the effect of committee assignment, independent of the characteristics that drive initial assignment. If, for example, a legislator spends three terms serving on the agriculture committee before switching onto the

banking committee, the increment in contributions from financial services PACs after the switch probably reflects the institutional value of the committee seat to those PACs, since it is unlikely that other factors, such as constituency profile or unobserved legislator characteristics change significantly from one electoral cycle to the next. I therefore take as the unit of analysis members of the House who ran for re-election in consecutive congresses between the 101<sup>st</sup> and 110<sup>th</sup> Congress. I estimate models for three different dependent variables: the number of financial services PACs that begin contributing to the legislator in the second of the pair of electoral cycles, having not contributed in the first; the number of financial services PACs who cease giving to the legislator in the second cycle, having contributed in the first; and the dollar change in the level of financial services PAC contributions from one cycle to the next. For the first two dependent variables, I employ a Tobit model; for the last I use OLS.

The key independent variables are dummies that indicate whether the member changed committee assignments between the two electoral cycles. I use six such variables: one each for movements to the House Banking Committee, House Commerce Committee and House Ways and Means Committee; one to mark movements out of the House Banking Committee<sup>5</sup>; one to indicate movement into or out of committees other than those mentioned; one to denote becoming chair or ranking member of any committee, and one for promotion to party leadership in the House (Appendix 2.1 shows the number of members of Congress making each type of move during the period studied). Consequently, the estimated coefficients for each of these variables should indicate the average number of PACs who began or ceased giving to a legislator who switched committees in the described ways relative to one who did not.

---

<sup>5</sup> There were too few switches out of the Commerce and Ways and Means committees to employ similar variables for these moves

Of course, while most legislator and constituency characteristics can reasonably be supposed to remain roughly constant over a two year period, there are some important characteristics that do change significantly from one cycle to the next. Most notably, these are characteristics relating to the degree of electoral competition faced a legislator faces. As was discussed above, there is considerable evidence that incumbents who are more vulnerable, and so have greater need of campaign funds, may be more willing to “sell favors” to PACs and so will secure higher levels of PAC contributions. I control for this possibility in two ways. First, I include a variable that measures the relative change in the share of the vote that the incumbent won from one cycle to the next. Second, I use a variable that measures the change in the level of fundraising attracted by the incumbent’s leading challenger from one cycle to the next. Finally, again following Romer and Snyder (1994), I include a variable that measures the number of PACs that contributed to the incumbent in the first of the pair of cycles. This controls for the fact that there is great variation from legislator to legislator in the number of PACs that make contributions in a normal year and so we would expect a higher turnover among those legislators who receive contributions from a greater number of organizations. Cycle-specific dummies are included in the model but not reported. As before, I disaggregate the results for each model by financial services subsector.

Results are shown in tables 2.4 to 2.6. The headline result from the aggregated dependent variable is that movements onto each of the House Banking, Ways and Means and Commerce committees significantly increases the number of financial services PACs contributing to a legislator. Congressmen who switch into these three committees gain an average of 15, 16 and four new contributors respectively. Given that the average number of new contributors gained in a cycle is just under eight, these figures are both substantially and statistically significant, with the Commerce Committee, as before, being the least attractive of the three to financial services firms. When the results are broken down by financial sector, we gain

further confirmation of the patterns suggested above. Moves to the Commerce Committee do not result in a significant increase in the number of commercial banking PACs contributing to a candidate, though they are associated with marked increases in the number of investment banking and insurance PACs making donations. Similarly, securities and insurance firms are much more responsive to moves to the Ways and Means Committee than are commercial banks: on average, a move to Ways and Means is associated with one additional commercial bank contributor, five additional securities firm contributors and 11 additional insurance contributors. Seats on the Commerce committee are relatively less attractive to all kinds of financial services PACs, perhaps because the jurisdiction of the committee is so broad. Among commercial banks, there is no significant increase at all in the number of contributing PACs and the increase is low (around two additional PACs) for both other sectors.

The results further suggest that leaving the House Banking committee significantly decreases the number of commercial banking PACs that begin a new contributing relationship with a legislator, though interestingly this pattern does not hold for securities and insurance PACs. I also find, unsurprisingly, that promotion to the party's leadership in the chamber has a significant effect on the number of financial services PACs contributing, though interestingly the effect is not as great in magnitude as the effect of moving to the Banking or Ways and Means committees. Perhaps more surprising is that promotion to a committee leadership position is not associated with significant increases in the number of contributing financial services PACs. It seems likely that this is because most committees have little or no jurisdiction over the financial services industry, so while a committee chairmanship is a powerful position, it is not a relevant one for these strategic "investor" PACs. In a similar vein, I find that movement between committees other than the three discussed has no significant effect on the number of contributing PACs. This is consistent with the hypothesis

that financial services PACs contribute in such a way as to maximize the legislative services they can have rendered, rather than simply giving to powerful legislators generally.

	<u>Add: All</u>	<u>Add: Banks</u>	<u>Add: Securities</u>	<u>Add: Insurance</u>
<i>Intercept</i>	2.287 (0.495) ***	0.683 (0.191) ***	-1.913 (0.262) ***	-0.029 (0.32)
<i>Move To Other Cmte</i>	-0.27 (0.319)	0.088 (0.123)	-0.129 (0.166)	-0.232 (0.206)
<i>Move To Leadership</i>	9.841 (2.201) ***	1.771 (0.82) *	3.831 (1.064) ***	4.401 (1.387) ***
<i>Move To Commerce</i>	3.771 (0.902) ***	0.37 (0.348)	2.153 (0.449) ***	2.331 (0.57) ***
<i>Move To W&amp;M</i>	16.28 (1.027) ***	1.09 (0.389) ***	5.523 (0.5) ***	11.444 (0.649) ***
<i>Move To HBC</i>	14.708 (1.078) ***	5.1 (0.402) ***	6.079 (0.523) ***	5.45 (0.681) ***
<i>Move To Cmte Chair</i>	0.52 (0.72)	-0.283 (0.28)	0.295 (0.372)	0.496 (0.465)
<i>Move From Banking</i>	-1.26 (0.91)	-0.946 (0.354) ***	-0.27 (0.465)	-0.562 (0.582)
<i>Change in Vote Share</i>	7.681 (1.837) ***	3.327 (0.725) ***	2.58 (0.976) ***	4.701 (1.191) ***
<i>Change in Challenger \$</i>	0.192 (0.021) ***	0.035 (0.008) ***	0.072 (0.01) ***	0.12 (0.013) ***
<i>No. Of Contributing PACs</i>	16.732 (0.722) ***	3.976 (0.277) ***	7.561 (0.374) ***	10.237 (0.467) ***

**Table 2.4:** Tobit model of number of financial services PACs beginning to contribute to an incumbent, 1989-2008. Standard errors in parentheses. N = 2895.

	<u>Drop: All</u>	<u>Drop: Banks</u>	<u>Drop: Securities</u>	<u>Drop: Insurance</u>
<i>Intercept</i>	0.96 (0.364) ***	0.576 (0.182) ***	-1.824 (0.19) ***	-0.611 (0.248) *
<i>Move To Other Cmte</i>	0.303 (0.234)	0.192 (0.117)	-0.031 (0.119)	0.295 (0.16)
<i>Move To Leadership</i>	0.675 (1.633)	-0.162 (0.801)	0.054 (0.802)	-0.096 (1.097)
<i>Move To Commerce</i>	-0.984 (0.665)	0.136 (0.329)	-0.506 (0.332)	-0.686 (0.451)
<i>Move To W&amp;M</i>	-3.358 (0.765) ***	-1.209 (0.386) ***	-1.629 (0.403) ***	-1.335 (0.525) *
<i>Move To HBC</i>	-1.737 (0.797) *	-1.18 (0.408) ***	-0.206 (0.398)	-0.571 (0.546)
<i>Move To Cmte Chair</i>	0.545 (0.529)	0.053 (0.266)	0.073 (0.27)	0.423 (0.36)
<i>Move From HBC</i>	8.745 (0.67) ***	4.295 (0.329) ***	3.287 (0.324) ***	2.354 (0.453) ***
<i>Change in Vote Share</i>	0.675 (1.347)	-0.345 (0.665)	0.73 (0.691)	0.435 (0.916)
<i>Change in Challenger \$</i>	-0.002 (0.015)	-0.002 (0.008)	-0.002 (0.007)	0.006 (0.01)
<i>No. Of Contributing PACs</i>	20.758 (0.53) ***	5.399 (0.265) ***	7.794 (0.273) ***	12.29 (0.364) ***

**Table 2.5:** Tobit model of number of financial services PACs ceasing to contribute to an incumbent, 1989-2008. Standard errors in parentheses. N = 2895.

	<u>All</u>		<u>Banks</u>		<u>Securities</u>		<u>Insurance</u>	
<i>Intercept</i>	1949.7 (1938.2)		1710.7 (669.4)	*	-13.1 (705.4)		252.1 (1020.9)	*
<i>Move To Other Cmte</i>	-2988.6 (1249.1)	*	-1253.8 (431.4)	**	-358.8 (454.6)		-1376 (657.9)	*
<i>Move To Leadership</i>	53197.6 (8694.3)	***	17249 (3002.9)	***	13483 (3164.2)	***	22465.6 (4579.5)	***
<i>Move To Commerce</i>	6061.7 (3555.3)	.	172.6 (1227.9)		1611 (1293.9)		4278.1 (1872.7)	*
<i>Move To W&amp;M</i>	53320.8 (4058.5)	***	5169 (1401.7)	***	13592.5 (1477)	***	34559.3 (2137.7)	***
<i>Move To HBC</i>	51224.4 (4257.5)	***	19726.3 (1470.5)	***	14593.5 (1549.5)	***	16904.7 (2242.5)	***
<i>Move To Cmte Chair</i>	397.6 (2827.4)		-257.6 (976.5)		1064.1 (1029)		-408.8 (1489.2)	
<i>Move From HBC</i>	-23810.5 (3596.1)	***	-11974.5 (1242.1)	***	-5104.2 (1308.8)	***	-6731.8 (1894.2)	***
<i>Change in Vote Share</i>	24328.1 (7214)	***	6219.9 (2491.6)	*	4419.6 (2625.5)	.	13688.5 (3799.8)	***
<i>Change in Challenger \$</i>	964.4 (81.2)	***	218.8 (28.1)	***	291.6 (29.6)	***	454 (42.8)	***
<i>No. Of Contributing PACs</i>	-1470.1 (2808.8)		-3522.4 (970.1)	***	2289.5 (1022.2)	*	-237.1 (1479.5)	

**Table 2.6:** OLS model of change in level of contributions by financial services PACs incumbents, 1989-2008, 2008 dollars. Standard errors in parentheses.

N= 2895.

Results for the model that considers the number of financial services PACs that cease a contributing relationship with a legislator are broadly similar, although I find fewer significant effects. Moves to the Ways and Means and House Banking committees are associated with significantly fewer financial services PACs terminating their relationships, though the same is not true either for moves to the Commerce committee or of promotions to the House leadership. However, when the results are disaggregated by sector, I find that the effect of movements to the House Banking Committee is significant only among commercial banking PACs. More interesting is the effect of movements out of the Banking committee: legislators who leave the committee on average find that around nine financial services PACs cease to make contributions in the electoral cycle after the switch. This effect is most powerful among commercial banking PACs, but is significant for all three sectors.

The estimates of the dollar value of committee switches are perhaps the most interesting results, in the context of the discussion above. I estimate that movement to a seat on the House Banking committee is worth an additional \$51,000 on average, compared to the \$63,000 estimated in the static analysis. Breaking this figure down by sector, a seat is worth \$20,000 to commercial banks, \$15,000 to securities firms and \$17,000 to insurance companies (the corresponding figures for the static analysis were \$28,000, \$19,000 and \$22,000). The results are both broadly consistent with the static model of contributions and suggestive that a considerable portion of the value of committee assignments estimated above may be due to unobserved legislator characteristics rather than to the value of the committee seat itself. An alternative explanation is that since for committee “switchers” the measured cycle of contributions is by definition their first on the committee, switchers receive lower levels of contributions commensurate with their lack of seniority. However, the negative or

insignificant coefficients estimated for committee seniority in the static analysis provide evidence against this explanation.

The corresponding results for the Ways and Means committee again suggest its seats are valued more highly by securities and insurance firms than by commercial banks. On average, switching onto the committee was associated with an increase of \$5,000 from commercial banks (compared to \$14,000 in the static analysis), \$14,000 from securities firms (\$25,000 in the static analysis) and \$35,000 from insurance companies (\$53,000 in the static analysis).

The dynamic model's estimates of the value of a Commerce seat are sufficiently small to render the estimated average increase statistically insignificant, except in the case of insurance firms, which give an average of \$4,000 more to legislators who move onto the committee. Another interesting result is the powerful effect that leaving the Banking committee seems to exert on contributions: on average, congressmen receive \$24,000 less from financial services PACs in the cycle after they leave the committee. As before, the effect is greatest among commercial banks, which give \$12,000 less in the following cycle, compared to \$5,000 less for securities PACs and \$7,000 less for insurance firms. This strongly suggests that a good deal of the value to financial services firms of committee seats is the legislative influence it grants to a member of the House. However, the fact that the decrease after switching out of the committee is around \$10,000 less than the increase after switching into it also suggests the financial services firms may value the expertise, knowledge and relationships that are developed during a period of service on the committee.

It is interesting that while movements between committees other than the three discussed in detail appeared to have little or no effect on the *number* of financial services PACs contributing to a legislator, they do seem to have an effect on the *level* of contributions made. For example, on average a member of the House who switches between committees receives \$3,000 less from financial services PACs in the following cycle. This phenomenon is

consistent with the notion that legislators who leave committees may do so because they are ineffective in developing strong reputations among the stakeholders in their jurisdiction (see, for example, Kroszner and Stratmann 1999).

In order to allow more detailed comparison with the static analysis and further illuminate the over-time trends suggested above, I would ideally estimate separate models for each pair of electoral cycles. Unfortunately, however, there are too few committee switches in each cycle to make this a viable modeling strategy. Instead, I adopt the initial approach used in the static model and create a dummy variable that indicates whether the observation is made in the Glass-Steagall or the post-Glass Steagall environment. I then re-estimate the model with this dummy included both independently and in interaction with each of the key committee variables. The results are presented in Table 2.7. Owing the relatively small number of observations in each period in which committee switches occur, the standard errors are relatively large. Nevertheless, several interesting results suggest themselves. First, there is strong confirmation of the finding from the static analysis that seats on the Banking committee have become much more valuable to financial services PACs since the repeal of Glass-Steagall, while seats on the Commerce Committee have become less valuable. I estimate that switching into a seat on the Banking committee was worth almost \$59,000 more after the repeal of Glass-Steagall and a seat on Commerce was worth \$16,000 more before the repeal. As before, the increase in the value of a place on the House Banking committee is concentrated among investment banking and insurance PACs, as is the fall in value of a place on Commerce. This provides further evidence for the idea that these types of PACs ceased to value the Commerce committee so highly as a potential veto point once they had lost the battle over Glass-Steagall.

	<u>All</u>		<u>Banks</u>		<u>Securities</u>		<u>Insurance</u>	
<i>Intercept</i>	7194.5 (1971)	***	833.2 (684.5)		1099.4 (715.4)		5261.9 (1038.8)	***
<i>Glass-Steagall</i>	-4643.4 (2417.7)	.	994.1 (839.7)		-989.1 (877.5)		-4648.4 (1274.3)	***
<i>Move To Other Cmte</i>	-2007.6 (1637.9)		-858.1 (568.9)		-271.6 (594.5)		-877.9 (863.3)	
<i>Move To Leadership</i>	79433.6 (11628.6)	***	18777 (4038.8)	***	24775.3 (4220.6)	***	35881.4 (6128.9)	***
<i>Move To Commerce</i>	-212.3 (4499.4)		-899.5 (1562.7)		-876.4 (1633.1)		1563.6 (2371.4)	
<i>Move To W&amp;M</i>	58059.7 (5567.1)	***	5120.8 (1933.5)	**	15191.8 (2020.6)	***	37747.1 (2934.1)	***
<i>Move To HBC</i>	65754.1 (5247)	***	21493.2 (1822.4)	***	20362.5 (1904.4)	***	23898.4 (2765.5)	***
<i>Move To Cmte Chair</i>	924.7 (3815.9)		-1678.8 (1325.3)		1708 (1385)		895.5 (2011.2)	
<i>Move From Banking</i>	-27109.1 (4847.3)	***	-9931.2 (1683.5)	***	-7972.1 (1759.3)	***	-9205.8 (2554.8)	***
<i>Change in Vote Share</i>	24642 (7175.3)	***	6207.5 (2492.1)	*	4635.1 (2604.3)	.	13799.4 (3781.8)	***
<i>Change in Challenger \$</i>	945.4 (80.8)	***	216.2 (28.1)	***	284.4 (29.3)	***	444.8 (42.6)	***
<i>No. Of Contributing PACs</i>	-1133.7 (2794.5)		-3488.7 (970.6)	***	2428.6 (1014.3)	*	-73.6 (1472.8)	
<i>G-S*Move</i>	-2678.9 (2517.5)		-919.4 (874.4)		-362.6 (913.7)		-1396.9 (1326.8)	
<i>G-S*HBC</i>	-58667.6 (17245.6)	***	-3598.5 (5989.7)		-25038.7 (6259.3)	***	-30030.4 (9089.4)	***
<i>G-S*Commerce</i>	16068.7 (7265.1)	*	2750.5 (2523.3)		6430.6 (2636.9)	*	6887.6 (3829.1)	.
<i>G-S*W&amp;M</i>	-10007 (8086.1)		153.3 (2808.4)		-3393.8 (2934.9)		-6766.5 (4261.8)	
<i>G-S*Leader</i>	-41590.9 (8870.9)	***	-5072.1 (3081)	.	-16497.8 (3219.7)	***	-20021 (4675.4)	***
<i>G-S*Chair</i>	-1247.1 (5639.6)		3119 (1958.7)		-1458 (2046.9)		-2908.1 (2972.4)	
<i>G-S*Leave HBC</i>	6596.5 (7177.7)		-4536.1 (2492.9)	.	5952.9 (2605.1)	*	5179.7 (3783)	

**Table 2.7:** OLS model of change in level of contributions by financial services PACs incumbents, 1989-2008, 2008 dollars. Standard errors in parentheses.

N= 2895.

Although the results relating to committee positions are the most important findings of this study, it is worth briefly comparing the results for the other control variables in the static model with the consensus findings in the literature for corporate PACs generally. For the most part, there seems a strong correspondence between my findings for financial services PACs and those reported in recent scholarly work on investor PACs. I find that financial services PACs give more money to more conservative legislators, to those who face close re-election races, to members of the majority party and to those whose districts have high levels of financial services sector employment. Because coefficients can be difficult to interpret intuitively, for each of these variables I simulate expected differences in the dependent variable as the control variable moves from a low to high level (see table 2.8).

I find that greater legislator conservatism, as measured by Poole and Rosenthal's NOMINATE scores, is associated with significantly higher contributions from all types of financial services PAC. Holding all other variables at their medians, a movement from one standard deviation below the mean level of conservatism to one standard deviation above results in an additional \$29,000 of contributions, which represents a very substantially significant effect. This finding is consistent with the consensus in the literature and very likely reflects the fact that economic conservatives can offer legislative services to corporations at a lower electoral costs than congressmen with very liberal primary or re-election constituencies.

<b>NOMINATE</b>	<u>All</u>	<u>Banks</u>	<u>Securities</u>	<u>Insurance</u>
Lib --> Con	28700 (4000)	14400 (1300)	6600 (1600)	12500 (2200)
<b>Last Vote</b>	<u>All</u>	<u>Banks</u>	<u>Securities</u>	<u>Insurance</u>
Safe --> Close	7200 (1600)	1700 (600)	2500 (600)	4300 (900)
<b>Bank Employment</b>	<u>All</u>	<u>Banks</u>	<u>Securities</u>	<u>Insurance</u>
Low --> High	2200 (800)	2000 (300)	700 (300)	-300 (400)
<b>Securities Employment</b>	<u>All</u>	<u>Banks</u>	<u>Securities</u>	<u>Insurance</u>
Low --> High	100 (300)	-400 (100)	400 (100)	100 (200)
<b>Insurance Employment</b>	<u>All</u>	<u>Banks</u>	<u>Securities</u>	<u>Insurance</u>
Low --> High	4200 (900)	200 (300)	-100 (300)	4400 (500)

**Table 2.8:** Increase contributions (2008 \$) as variable moves from low to high (Standard Errors in parentheses)

I also find, consistent with the literature, that congressmen who are more electorally vulnerable receive more contributions from financial services PACs. As electoral vulnerability moves from one standard deviation below the mean to one standard deviation above, contributions increase by just over \$7000, which is a substantial sum, though much smaller than that associated with an equivalent shift in conservatism. As Ansolabehere, Snyder and Tripathi (2002) persuasively argue, this effect is likely a consequence of the preferences of the incumbents rather than of the contributing PACs: that is, as legislators becomes more vulnerable, their need for campaign finance increases and so their willingness to exchange legislative favors for PAC funding also increases.

As the variance in the number of people employed in financial services at the district level is so large, it is not sensible to explore a shift of two standard deviations; instead I consider a shift from a district at the 25<sup>th</sup> percentile of employment to one at the 75<sup>th</sup> percentile, which is a considerably smaller range. Nevertheless the results are interesting, if consequently smaller than those reported for conservatism and electoral vulnerability. I find, unsurprisingly, that contributions received from each sector rise as employment in that sector rises. For

commercial banks, the along the inter-quartile range of employment is worth an additional \$2,200 per cycle; for insurance firms, it is worth around \$4,400. The effect is much smaller for securities firms, partly because the inter-quartile range is rather compressed for the securities industry, with most employment concentrated in a relatively small number of districts. Nevertheless, it is striking that contributions from commercial banks actually decrease, albeit very moderately, as district employment in the securities sector increases. This perhaps represents the legacy of intense interest group competition during the Glass-Steagall era, although this explanation is somewhat unsatisfying, as we observe no similar effect for insurance employment. The result may simply be a statistical artefact or may represent the working out of some unobserved characteristic of legislators from districts with high levels of securities employment.

## **Conclusion**

This chapter attempts to provide the necessary foundation for understanding the contribution strategies of financial services firms with respect to the House of Representatives over the last twenty years. The PACs associated with these firms emerge, like their counterparts in the broader corporate world, as highly strategic, rational, “investor” organizations. Although there is evidence that financial services PACs throughout the period contributed more to congressmen who represent districts with high levels of financial services employment and to incumbents facing close re-election races, the legislator characteristics that are associated with the highest levels of giving are those that increase the ability to provide or efficiency in providing legislative services. Consequently, we see that financial services firms give considerably more to congressmen from the majority party, those holding committee or chamber leadership positions and, above all, those sitting on committees with jurisdiction over legislation that affects the financial services industry.

Moreover, disaggregating the results by financial sector and by time shows that these patterns have changed over time in line with the degree and kind of interest group competition engendered by the prevailing regulatory environment. Most strikingly, we see that before the repeal of the Glass-Steagall regulations – arguably the most important legislative event of the last two decades in terms of its impact on the financial services industry – commercial banks, securities firms and insurance companies pursued markedly different contribution strategies. Specifically, it appears that before 1999, contributions to members of House Banking Committee were dominated by the commercial banks, while members of the Commerce Committee saw very high levels of contributions from the other two sectors. Since Glass-Steagall’s repeal, however, there has been a marked decline in contributions to legislators with seats on Commerce, while giving to members of the Banking Committee has rapidly accelerated, especially among insurance PACs, which now give more per cycle to Banking Committee members than do commercial banks. As discussed above, the most plausible explanation for this phenomenon appears to be the end of the intra-industry struggle over Glass-Steagall: as the utility of the Commerce committee as a potential veto point in that struggle fell away, so did contributions from the securities and insurance sectors.

The other contribution of this chapter is its attempt to disentangle the various components of the value of Banking Committee assignment and say what portion is due directly to the privileges and powers conferred by membership of the committee itself, rather than to legislator characteristics associated with but distinct from committee membership. My findings suggest, first, that financial services PACs value committee service itself very highly, but that, second, perhaps almost half of this value relates to the knowledge, expertise and networks developed during committee tenure, none of which (necessarily) diminish upon leaving the committee. The other half, it seems most plausible, relates directly to the superior ability of committee members to influence legislative outcomes favorably. Thus, even if it

remains extremely difficult for political scientists to pinpoint exactly what it is that PACs get in return for their contributions, we can say that PACs behave in a way that looks *as though* they are buying legislative favors.

The next chapter attempts to put further pressure on this idea, by considering a how interest-group competition affects patterns of giving at the industry, rather than the legislator, level. Nevertheless, it is important to note that we may simply at this stage lack the data to show comprehensively where and how financial services interests, and indeed economic interests generally, exercise influence on the legislative process. While it seems almost certain that campaign contributions are an important part of the story, recent work on emerging, but as yet insufficiently granular, data on corporate lobbying strongly suggests that economic interests invest even more in the (much less susceptible to measurement) strategy of closed-door meetings than they do in direct contributions (see, for example, Baumgartner and Leech 2001, Ansolabehere, Snyder and Tripathi 2002). Although this topic is outside the scope of this study, it is crucial to keep in mind as we consider the extent of the influence we *can* measure.

### **Chapter Three: Intra-industry Competition and Contribution Strategies**

One of the advantages of outlining at considerable length the congressional history of the financial history over the last two decades is that it allows us to consider important empirical questions with greater precision than has been attempted elsewhere in the existing literature. In this chapter, I reconsider and extend the positive theory of congressional committees proposed by Kroszner and Stratmann (1998) with respect to the financial services industry. Kroszner and Stratmann argue that owing to the impracticality (and, indeed, illegality) of writing enforceable service contracts between PACs and legislators, congressional committees have evolved to facilitate repeated dealings between organized interests and members within highly specialized areas of public policy. Such dealings reduce uncertainty and foster reputational development among congressmen. Legislators who develop strong reputations in particular areas attract high levels of contributions and long-term commitment from PACs.

According to Kroszner and Stratmann, the key to understanding patterns of giving by financial services PACs is interest group competition. In the case of the financial services industry in the period that Kroszner and Stratmann study, this means competition between commercial banks, investment banks and insurance firms. The authors argue that these PACs have limited interaction with legislators who are not members of the House Banking Committee. Consequently, the level of contributions to non-members is driven by the same highly visible characteristics discussed in chapter two, such as ideology and party, for all three kinds of financial services PACs. For members of the committee, however, the pattern is quite different. Repeated interaction allows committee members to develop reputations for being reliable allies not just to the financial services industry generally, but to a particular sub-group of it.

As a result, Kroszner and Stratmann predict that the summed levels of contributions to a non-member of the House Banking Committee by commercial bank, investment bank and insurance firm PACs should be highly correlated with one another. By contrast, they predict that among members of the committee, contributions from the three sub-groups will be uncorrelated, as commercial banks and insurance firms, for example, will recognize different “champions” or allies among the congressmen who have been able to develop strong reputations within the sector. Kroszner and Stratmann show that for the period between 1983 and 1992, these predictions are strongly borne out by the data: among non-members of the House Banking Committee, donations by commercial banks, investment banks and insurance firms are highly correlated; among members of the committee, contributions are uncorrelated.

### **Hypotheses**

By considering the history described in chapter one, we can make several testable hypotheses that should hold if Kroszner and Stratmann's theory is correct:

- First, for members of the House Banking Committee we should notice a marked difference between the pre- and post-Glass-Steagall eras. Giving to Banking Committee members by each of the financial services sub-groups should become more correlated over time. As noted in chapter one, this change was slower and more gradual than Kroszner and Stratmann's and Kroszner's (1997) accounts suggest. We should not expect to see a sudden shift to higher correlation starting in 1999, but incremental change with the most rapid acceleration after 1999.
- For non-members of the House Banking Committee, we should see little change in the correlation of giving over time, as the consolidation of the industry should do little to change the extent of repeated interactions with non-members. Correlation should be consistently high across the period.

- In general, we should expect to see giving by the securities and insurance industries exhibit the highest levels of correlation, as these two groups have most often been allied together against the banks. Similarly, we should expect to see giving by commercial banks and insurance firms exhibit the lowest levels of correlation, as the dispute between these two lobbies was the most persistent.

### **Data and methods**

To test these predictions for the twenty years after 1989, most of which falls outside the period studied by Kroszner and Stratmann, I compiled a dataset of all contributions made by PACs affiliated with each of the three financial services sub-sectors to members of the House of Representatives. For each incumbent in each cycle, there are three relevant variables, one representing the summed level of contributions from each sub-sector. Following Kroszner and Stratmann, I run two related tests. First, I divide the sample into relevant subgroups – here, by committee membership – and then compare the simple (unconditional) Pearson's correlation between giving by each of the three possible sub-sector pairs (Commercial banks and securities firms; commercial banks and insurance firms; and securities firms and insurance firms) within each subgroup. Given the history outlined in chapter one, I chose to look at the House Banking and House Commerce committees, as these two groups had the greatest impact on financial services legislation during the period. In order to provide additional evidence that the patterns I find are the consequence of financial services-specific developments, I also take members of the House Ways and Means Committee as a separate group, as previous research suggests that this is the most important or influential committee for the corporate sector as a whole (Grier and Munger 1991, 1993, Romer and Snyder 1994). To test the claim that we should see very different patterns among non-members of relevant committees, I also consider non-members of these committees as separate groups.

The second test looks at the same subgroups within the House, but considers the correlations between the giving by each financial services sub-sector conditional on some of the most important control variables identified in chapter two. This controls for the possibility that changes in correlations over time reflect changes in the composition of committees or the value of different legislator characteristics over time. To perform this test, I employ ten “seemingly unrelated regression” (SUR) models, one for each congressional cycle, with three simultaneous equations each, one for each sub-sector, and report the correlations between the residuals of each equation.

The variables I control for are party affiliation, freshman status, ideology (as measured by Nominate scores), and district employment in each of the three financial subsectors. As separate SUR models were estimated for each congressional cycle, controls that were invariant within a given cycle were dropped.

## **Results**

The full results for the first test – unconditional correlations – are reported in Table 3.1. As I am primarily interested in change over time, I also graph these results for the most relevant sub-groups. These graphs are shown in Figures 3.1 to 3.5.<sup>6</sup>

The equivalent table for the conditional correlations estimated by the SUR model are presented in Table 3.2. The equivalent graphs are shown in Figures 3.6 to 3.10.<sup>7</sup>

---

<sup>6</sup> Owing to the similarity of the graphs for non-members of the Commerce and Ways and Means committees to that for all members of the House, this graph is omitted, although the full results are available in the table

<sup>7</sup> Following the indicative results of the first test, the non-members of Commerce and non-members of Ways and Means are again omitted, from both the table and the graphs

## Discussion

As both the simple correlations and the results of the SURM model suggest, the evidence from the period between 1989 and 2008 is broadly consistent with the predictions of Kroszner and Stratmann's theory. I will consider each of three central hypotheses in turn, before considering some anomalies and directions for future research.

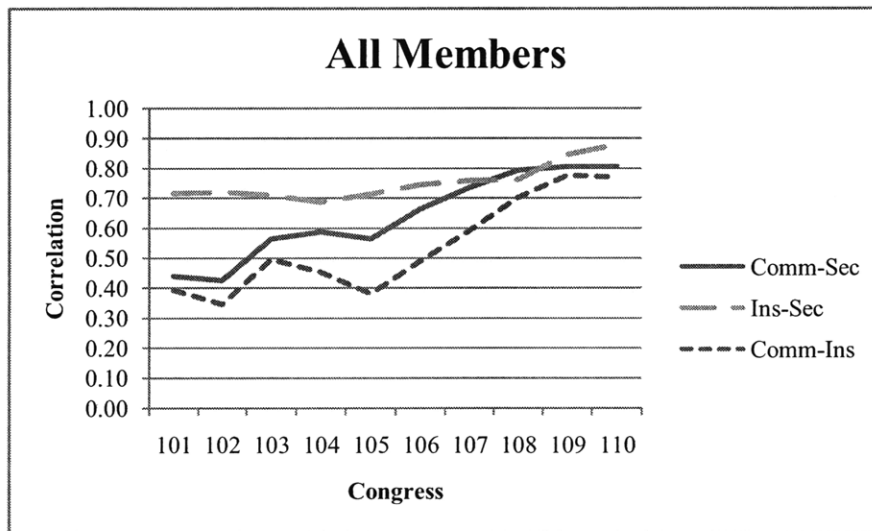


Figure 3.1: Correlation of giving to all members of the House of Representatives over time

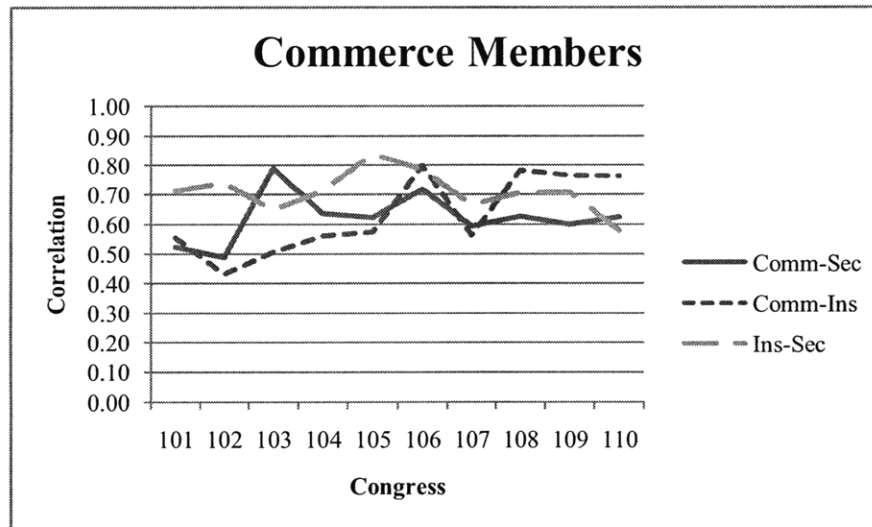


Figure 3.2: Correlation of giving to members of the Commerce committee over time

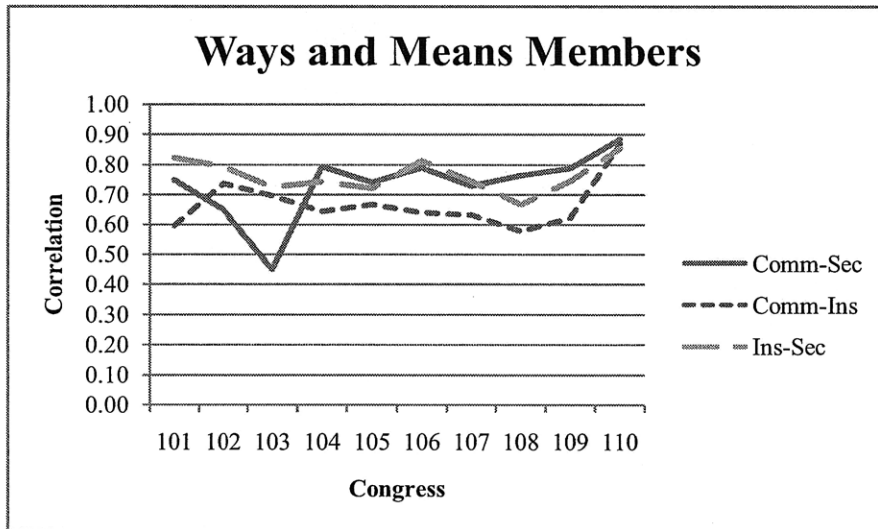
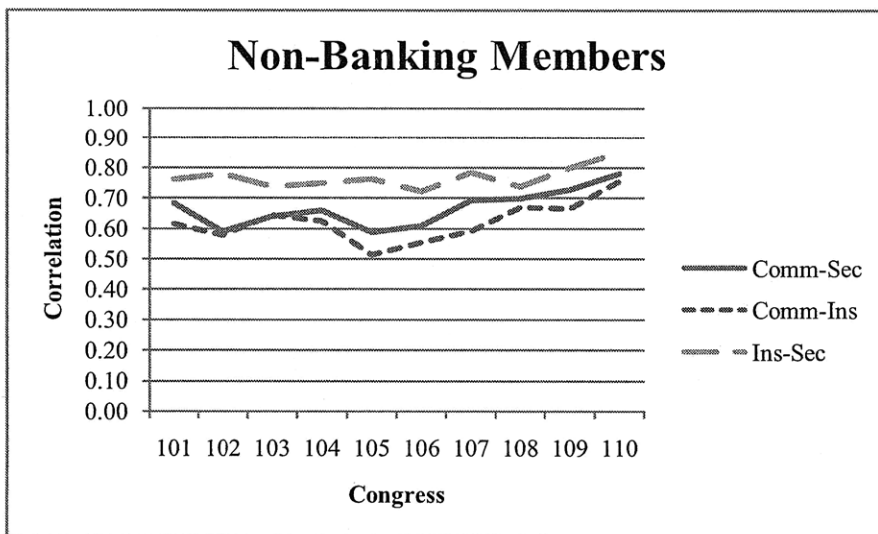
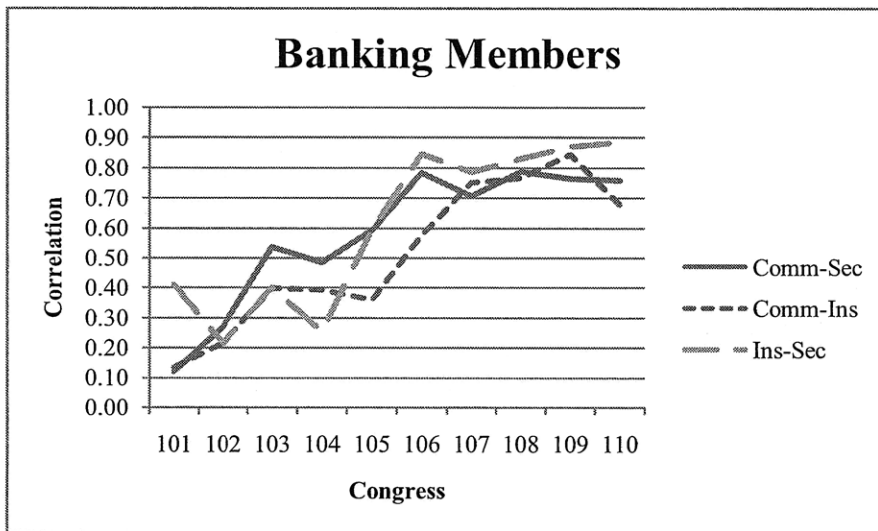


Figure 3.3: Correlation of giving to members of Ways and Means over time



118  
Figure 3.4: Correlation of giving to non-members of Banking Committee over time

<u>Congress</u>	<u>All</u>			<u>Ways and Means</u>			<u>Commerce</u>			<u>Banking</u>		
	<u>1</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>
101	0.44	0.39	0.72	0.75	0.60	0.82	0.52	0.55	0.71	0.12	0.13	0.41
102	0.43	0.35	0.72	0.65	0.74	0.79	0.49	0.43	0.74	0.27	0.22	0.21
103	0.56	0.50	0.71	0.45	0.70	0.73	0.79	0.51	0.65	0.54	0.40	0.40
104	0.59	0.45	0.69	0.79	0.64	0.74	0.63	0.56	0.71	0.48	0.39	0.25
105	0.56	0.38	0.71	0.74	0.67	0.72	0.62	0.57	0.84	0.59	0.36	0.60
106	0.66	0.49	0.74	0.79	0.64	0.81	0.72	0.80	0.78	0.78	0.58	0.85
107	0.74	0.59	0.76	0.73	0.63	0.75	0.59	0.56	0.67	0.71	0.75	0.79
108	0.79	0.70	0.76	0.76	0.58	0.67	0.63	0.78	0.71	0.79	0.77	0.83
109	0.81	0.78	0.85	0.79	0.62	0.74	0.60	0.76	0.71	0.76	0.84	0.87
110	0.81	0.77	0.88	0.88	0.87	0.85	0.62	0.76	0.58	0.76	0.68	0.89

<u>Congress</u>	<u>Non-Banking</u>			<u>Non-Commerce</u>			<u>Non-Ways and Means</u>		
	<u>1</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>
101	0.68	0.62	0.76	0.44	0.38	0.74	0.43	0.44	0.63
102	0.59	0.58	0.78	0.43	0.34	0.72	0.47	0.40	0.61
103	0.64	0.65	0.74	0.54	0.50	0.73	0.64	0.50	0.63
104	0.66	0.63	0.75	0.60	0.44	0.68	0.60	0.49	0.65
105	0.59	0.51	0.76	0.58	0.35	0.68	0.58	0.42	0.69
106	0.61	0.55	0.72	0.71	0.43	0.73	0.68	0.54	0.73
107	0.69	0.59	0.78	0.76	0.60	0.78	0.76	0.71	0.79
108	0.70	0.67	0.74	0.81	0.70	0.77	0.80	0.79	0.80
109	0.73	0.67	0.80	0.82	0.78	0.85	0.81	0.87	0.89
110	0.78	0.76	0.85	0.81	0.77	0.89	0.80	0.80	0.88

**Legend**

Figures are Pearson's correlations between:

**1:** Commercial bank and Securities firms PACs

**2:** Commercial bank and Insurance firm PACs

**3:** Securities firm and Insurance firm PACs

**Table 3.1:** Unconditional correlations between giving by each of the three financial services sub-sectors to members of the House of Representatives, from the 101<sup>st</sup> to 110<sup>th</sup> Congresses

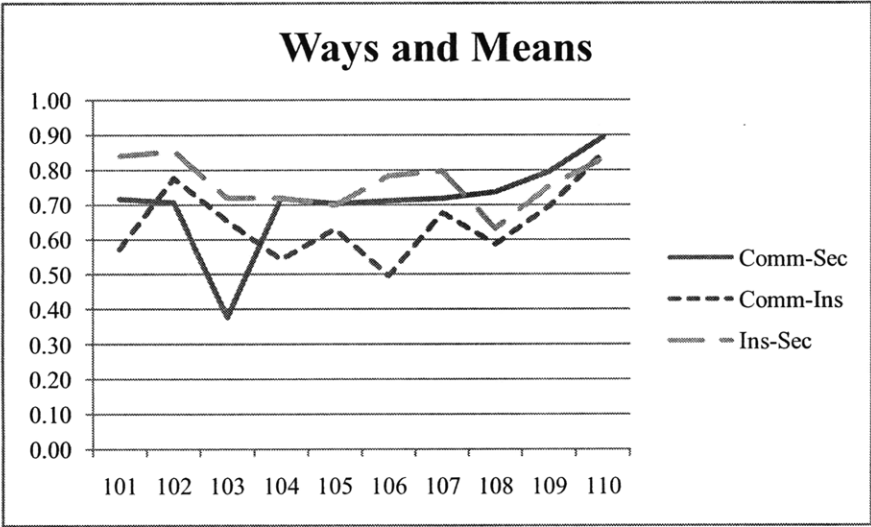


Figure 3.6: Conditional correlation of giving to members of Ways and Means over time

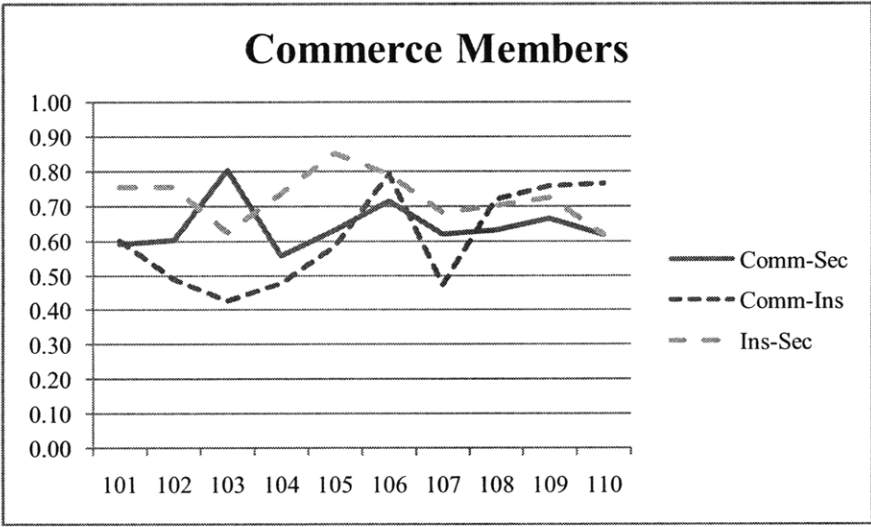


Figure 3.7: Conditional correlations of giving to members of Commerce over time

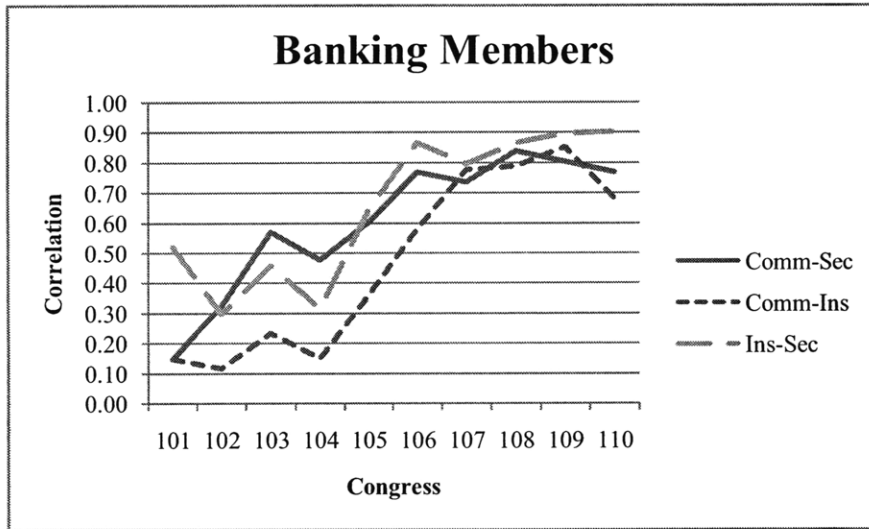


Figure 3.8: Conditional Correlations of giving to members of Banking committee over time

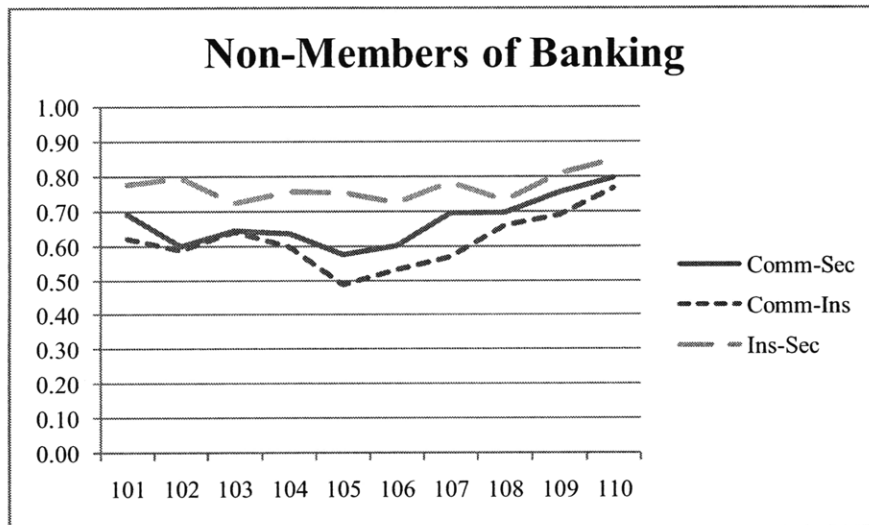


Figure 3.9: Conditional correlation of giving to non-members of the Banking committee over time

<u>Congress</u>	<u>Ways and Means</u>			<u>Commerce</u>			<u>Banking</u>			<u>Non-Banking</u>		
	<u>1</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>
101	0.72	0.57	0.84	0.59	0.60	0.75	0.15	0.15	0.52	0.69	0.62	0.78
102	0.71	0.78	0.85	0.60	0.49	0.75	0.32	0.12	0.30	0.60	0.59	0.80
103	0.38	0.65	0.72	0.80	0.43	0.63	0.57	0.23	0.46	0.65	0.64	0.72
104	0.72	0.54	0.72	0.56	0.48	0.74	0.48	0.15	0.32	0.64	0.60	0.76
105	0.70	0.63	0.70	0.63	0.59	0.85	0.60	0.36	0.65	0.58	0.49	0.75
106	0.71	0.50	0.78	0.72	0.79	0.79	0.77	0.58	0.87	0.60	0.53	0.72
107	0.72	0.68	0.80	0.62	0.47	0.68	0.74	0.78	0.80	0.69	0.57	0.78
108	0.74	0.59	0.63	0.63	0.72	0.70	0.84	0.79	0.87	0.70	0.66	0.73
109	0.80	0.70	0.75	0.66	0.76	0.73	0.80	0.85	0.90	0.76	0.69	0.81
110	0.89	0.85	0.83	0.62	0.77	0.62	0.77	0.68	0.90	0.80	0.77	0.85

**Table 3.2:** Conditional correlations between giving by each of the three financial services sub-sectors to members of the House of Representatives, from the 101<sup>st</sup> to 110<sup>th</sup> Congresses

Figures are estimated correlations of residuals from a seemingly unrelated regression model between:

**1:** Commercial bank and Securities firms PACs

**2:** Commercial bank and Insurance firm PACs

**3:** Securities firm and Insurance firm PACs

*I: Members of the House Banking Committee*

Perhaps the most striking result is that, consistent with our hypothesis, contributions to members of the House Banking Committee by different sub-sectors of the financial services industry exhibited very low levels of correlation in the 101<sup>st</sup> Congress, but following the repeal of Glass-Steagall became very highly correlated at levels comparable to those seen in contributions to non-members of the committee. The low levels of correlation during the Glass-Steagall era is consistent with the notion that financial services PACs had repeated interactions with members of the committee during this period and so were able to reach reliable judgments about which members were willing and able to provide legislative services to a given sub-sector. For example, commercial banking PACs were able to identify which legislators were willing and able to support their interests against those of the securities or insurance lobby. Consequently, since a relatively large proportion of the Banking committee's time was spent on issues on which the three sub-sectors took opposing stances, financial services PACs were able to pursue competitive contribution strategies with respect to members of the committee. That is, committee members who received high levels of contributions from commercial banks were in general *not* more likely to receive high levels of contributions from the other two sub-sectors.

Crucially, as seen in Figures 3.4 and 3.8, this pattern disappears after the repeal of Glass-Steagall. Once the three financial services sub-sectors stand in essentially non-competitive relationships to one another, there is little benefit to supporting particular "champions" on the committee. Although PACs retained the repeated interactions necessary to discriminate, the alignment of interests between commercial banks, securities firms and insurance companies meant that high contributions from one sub-sector became highly correlated with high contributions from the other two.

Moreover, the timing of this change is consistent with the history of the financial services industry recounted in chapter one. What is fascinating is that the rapid acceleration in correlation begins not with the passage of the Glass-Steagall repeal itself, but at the point when the three industry sub-sectors reached agreement on regulatory reform. As noted in chapter one, this actually occurred in the 104<sup>th</sup> Congress, but the bill enshrining the overhaul was not passed until 1999 (and thus the 105<sup>th</sup> Congress), owing to the objections of Senator Phil Gramm (R-TX) and other conservative Republicans. Figures 3.4 and 3.8 clearly show the increase in correlation beginning during the 104<sup>th</sup> Congress, rather than the 105<sup>th</sup>, which seems to provide strong evidence for the argument that it was the *de facto* rather than the *de jure* structure of industry competition that played a crucial role in shaping industry PACs' contribution strategies. It also provides, perhaps, further justification for the tight integration of detailed micro-histories with statistical analysis: were we to rely on the dates of landmark legislation alone, the pattern would be much harder to interpret.

## *II: Non-members of the House Banking Committee*

As hypothesized, in the period before Glass-Steagall, contributions to members of Congress who did *not* sit on the banking committee were highly correlated across financial services sub-sectors. That is, the legislators to whom commercial banks gave large contributions tended to be the legislators who also received large contributions from securities and insurance firms. This is consistent with the argument that financial services PACs had insufficient repeated interactions with most non-Banking committee members to determine reliably the degree of the legislator's sympathy to a particular sub-sector of the industry. Moreover, it provides evidence for the contention that, since so few votes on the House *floor* concerned intra-industry competition, relative to the number of floor votes on which the interests of the financial services industry were aligned (such as, for example, legislation that concerned corporate interests generally), the three financial services sub-sectors essentially

pursued complementary rather than competitive contribution strategies with respect to these representatives.

Moreover, we also see that, as predicted by Kroszner and Stratmann's theory, there is little change over time in the level of correlation between giving by each sub-sector to non-Banking Committee members. If it is true that the sub-sectors pursued complementary contribution strategies with respect to non-committee members before Glass-Steagall's repeal, then we would expect little change following the repeal, as the new regulatory environment should only reduce the degree of intra-industry competition. Indeed, there is further evidence for this in the small but consistent increase in the degree of inter-industry correlation of giving to non-committee members since the 104<sup>th</sup> Congress, when the industry reached agreement on regulatory reform, as seen in Figures 3.5 and 3.9.

### *III: Intra-industry relationships*

The patterns of industry correlations are broadly consistent with the hypotheses derived from the history recounted in chapter one. Although their interests were not perfectly aligned, the securities and insurance industries were generally allied during the Glass-Steagall era against the commercial banks, as the banks sought to expand into both businesses. Correspondingly, giving by securities firms and insurance companies exhibits the highest level of correlation throughout the two decades studied among (see Figures 3.1 and 3.9). Interestingly, the only Congresses for which this pattern does not also hold for members of the Banking Committee are the 103<sup>rd</sup> and 104<sup>th</sup> Congresses, during which, as noted in chapter one, there existed a number of temporary alliances between large commercial banks and large investment banks against the insurance lobbies. Similarly, the most consistently antagonistic intra-industry relationship during the first half of the period studied was between the insurance companies

and the commercial banks and these two groups exhibit the lowest correlation in their giving throughout the period.

*Anomalies and further study*

Perhaps the most surprising finding is that there is no obvious pattern in the correlations between the contributions by the three financial services sub-sectors to members of the Commerce committee. The account in chapter one suggests that, after the House Banking committee, the Commerce committee had by far the greatest impact on financial services legislation of any House committee. Yet there is no pattern in the contributions to its members to parallel that seen in the contributions to members of the Banking committee. This is perhaps best explained by reference to the extremely broad jurisdiction enjoyed by the Commerce committee. I have argued that the pattern seen in contributions to members of the Banking Committee exists because (a) there are numerous opportunities for repeated interactions between financial services PACs and committee members and (b) in their dealings with members of the committee, the three financial industry sub-sectors were largely competing with one another. While the account in chapter one suggests that the first condition holds for the Commerce committee – that is, there were a high number of repeated interactions – it cannot show that the second also holds. Indeed, just as I have argued that in relation to the full scope of issues considered on the House floor the three industry sub-sectors were more often cooperating than competing, so we might expect to see relatively little divergence of interests among the three groups when the full range of issues overseen by Commerce is considered. The lack of a discernable pattern in the results for the Ways and Means Committee is consistent with this explanation: the committee was included as a quasi-control to reinforce the evidence that the Banking Committee pattern is due to legislative developments specific to the financial services industry, rather than to changes in the broader corporate or taxation environment.

Although I have suggested in chapter one that the extremely complex nature of financial services-related policy and the remarkably low incidence of important roll call votes makes timing studies of the type explored by Stratmann (1998) impossible for this sector, these results do suggest that there may be much to be gained from more investigation of patterns of giving at a lower level of temporal granularity. The correlations reported here for giving to members of the House Banking Committee appear to track the vicissitudes of the struggle to overhaul Glass-Steagall remarkably closely, at least at the two-year congressional cycle level. Future research could consider whether the relationship holds – and, indeed, whether it becomes more pronounced – if year-long or even shorter time horizons were considered. Given the complexity and nuance of the relevant legislative events and the multiplicity and autonomy of the actors involved, I am skeptical about the possibility of formally coding the formation and dissolution of coalitions. However, it would seem possible to note the broad dimensions of conflict between the three relevant interest groups on an annual basis and investigate whether the patterns of contributions reflected these.

A second, much more ambitious, avenue suggested by these results is that it might be possible to discover something about the mechanism by which correlations in contributions emerge. Do they emerge spontaneously, as PACs independently – though, clearly, in response to the same events – alter the value they place on different characteristics? (This possibility is consistent with the findings in chapter two). Or is there evidence of a more deliberate response and reaction to the giving of allied or opposed groups? For example, did commercial banking PACs respond differently to contributions from securities firms to particular members in years when the two lobbies' interests were aligned than in those sessions when they were opposed? These kinds of questions, though complex, seem amenable to statistical inquiry and the results might reveal much about the structure of interest group competition within the Congressional arena.

## **Conclusion**

This chapter's findings provide strongly supportive evidence for the proposition that the structure of interest group competition outside Congress powerfully shapes the contribution strategies of interest groups inside Congress. I find that changes in the structure of interest group competition primarily affect contributions to members of Congress whose interactions with the interest groups concern matters of intra-industry conflict; in this study, this means members of the House Banking Committee. For contributions to these legislators, intra-industry alliances are associated with coordinated, or at least complementary, giving strategies. When interest group competition is pronounced, competing PACs choose to give to different members of the relevant group of legislators.

These findings are consistent with the positive theory of committees proposed by Kroszner and Stratmann (1998): committees enable PACs to have multiple, repeated interactions with legislators who have jurisdiction in the relevant field; these interactions allow the PACs to determine which members are reliable allies and which are not. Kroszner and Stratmann argue that it is these judgments that enable to follow a more precise contribution strategy that leads to the patterns of contributions reported here. Consequently, as the repeal of Glass-Steagall has the effect of aligning the interests of the three sub-sectors, all three sub-sectors begin to follow complementary contribution strategies.

However, I would argue that my results suggest that the competitive dimension of Kroszner and Stratmann's theory deserves greater weight than they accord it. Were it the case that repeated interactions alone are sufficient to cause the observed patterns of correlated (and uncorrelated) contributions, we would expect to see similar patterns in contributions to members of the House Commerce committee as we see in those to members of the Banking Committee. As chapter one strongly suggests, the Commerce committee played an important

role in shaping financial services-related legislation in this period. The fact that such patterns are not apparent suggests that some other factor in addition to repeated interactions is necessary in order to produce the observed results. I would argue that this other factor is the proportion of interactions that relate to intra-industry competition: where, as in the case of Commerce, most interactions take place in the context of a financial services industry with common interests, the notion of “friendly” or “unfriendly” legislators is less important to each sub-sector, so we see patterns of complementary contributions. However, where most interactions concern matters of intra-industry competition, as is the case with the Banking committee in the first half of this study, competition for the favor of individual legislators is more important, which leads to the non-complementary patterns observed for contributions to these members.

Although beyond the scope of this thesis, these results also have potentially important normative implications. Several commentators have suggested that the repeal of Glass-Steagall had powerful and ultimately damaging effects in terms of firm- and system-level risk, it is also plausible that it had important consequences for the broader regulatory environment facing the industry. If it is the case that contributions to members of Congress – or something for which contributions are a perhaps good proxy, such as lobbying activity – influence policy and regulatory decisions, then how firms within an industry co-ordinate their contributions will have important consequences. Competition between firms or sectors within an industry is likely to have the effect of delaying or decelerating moves toward deregulation, while coordination is likely to have the opposite effect. The repeal of Glass-Steagall, then, may have had consequences not only for the actual business practices of the financial services industry, but also for its attempts to influence government policy. Where before 1999, the attempts of, say, large investment banks to sway government decisions was at least partly counterbalanced by the opposing interests of powerful commercial banks, in the post-Glass-

Steagall environment, this countervailing force no longer existed. Indeed, very often the large investment banks *were* powerful commercial banks or at least had very similar interests.

Although this study cannot do any more than present suggestive evidence that the repeal of Glass-Steagall had a profound impact on the way that large financial services firms interacted with government and with each other, mapping the policy consequences of this change seems an important and, given the current political and economic environment in the United States, perhaps even urgent task for political scientists.

## Conclusion

When asked in the mid-twentieth century about the consequences of the French Revolution, a Chinese statesman is said to have replied, in one of the most quoted remarks on the topic of great events, that it was too soon to say. So it is with Glass-Steagall. The purpose of chapter one of this thesis is to explain how Congress came to repeal the Depression-era legislation and how legislative events unfolded in its aftermath, but it cannot claim to pin down what the long-term fallout has been. Similarly, chapters two and three aim to say something about the strategies adopted by financial services firms in their contributions to legislators, but they cannot state with certainty the consequences of these strategies. The purpose, then, of this conclusion is to begin to suggest somewhat tentatively in what directions the results that I have been able to reach do point.

First, though, I wish to make a methodological point, which I believe has important substantive implications, both for the case studied here and more generally. As noted in chapter one, the narrative mode adopted there is relatively unusual in political science studies, particularly within American politics. The great advances in political methodology in recent years have certainly brought countless important insights and much clarity to complicated issues. Moreover, it is certainly true that it is all-too-easy for qualitative accounts to lack rigor and fall prey to the author's desire to impose a consistent and satisfying narrative on events. Nevertheless, I believe the mixing of quasi-historical and statistical methods, as attempted here, provides a check on the dangers inherent in both approaches, but more importantly also allows insights that would not be possible if either were employed alone. In this case, a detailed account of the changing alliances of interest groups allows us to reach conclusions in chapters two and three that would not be available if we possessed only the stylized facts of the history of the industry over the last two decades. Specifically, it here prevents us from making the error of supposing that legislative action alone determined the

structure of interest group competition in the years around 1999; rather, we see, as is emphasized in the narrative in chapter one, that it was changes in the commercial, regulatory and judicial spheres that produced these effects, while Congress was still locked in stalemate. More generally, it might simply be said that mixing qualitative and quantitative approaches compels us to keep in mind the enormous complexity of the political world, which is all too easily lost in the comforting precision of statistical analysis.

Despite, however, the disparate nature of the chapters presented here, the conclusion that emerges from each of them is that firms within the financial services industry and legislators in Congress are participants in a highly complex system in which we observe not simple cause and effect, but complicated feedback and influence exerted in multiple directions. It is by no means true either that Congress is a simple rubber stamp for the wishes of the industry or that it can simply impose its will on the industry for the public good. Rather, it seems clear that the Congressional agenda both shapes and is shaped by the financial services industry. Chapter three in particular demonstrates that regulation affects not only the business practices of the industry, but also how the industry attempts to influence the passage of legislation. If the industry is able to influence the legislative outcomes – and both chapter one strongly suggests that it is – then it appears that the present regulatory environments is at least in part a function of past ones. For the pattern of alliances and shared interests that a given regulatory system creates will shape how those interests attempt to influence public policy. In our case, we see that the end of Glass-Steagall not only allowed commercial banks to enter the securities and insurance businesses, but also allowed the banks to align with those industries to advance their legislative priorities. As chapter one suggests qualitatively and chapter three suggests quantitatively, the years after the repeal of Glass-Steagall were marked by a much higher level of coordination of lobbying than the years before. If, as seems likely, this coordination enabled the achievement of at least some public policy goals – perhaps, as noted

in chapter one, the passage of bankruptcy legislation or further liberalization in the securities industry – then Glass-Steagall’s repeal had profound political, as well as commercial consequences. This is a conclusion that ought to be borne in mind as Congress now considers the industry’s re-regulation: as it determines the pattern of interests that will dominate the industry’s near future, it should ask not only what financial crises it can avert, but also – at risk of falling into melodrama – what democratic disasters it might also avoid.

The second major conclusion I wish to draw concerns a question that I have not attempted to answer, but whose presence rears its head at every turn in these pages: how exactly and how effectively do financial services firms – or, indeed, corporate interests generally – influence public policy? As noted in chapter two, countless political science studies have attempted to locate the site of influence, often by seeking a link between campaign contributions and roll-call voting – and almost all have failed. I have not tried to find such a link and I believe that chapter one stands as a partial justification of that approach: in the long history of the struggle to repeal Glass-Steagall, roll-call votes were rare and even more rarely decisive. If corporate interests wield power in the Capitol, the instrument is surely much sharper than campaign contributions alone and the outcome surely less public and less clumsy than the roll-call vote. It is rightly a matter of continued frustration for political scientists that we remain unable to pin down how influence is bought and sold (if it is) and demonstrate cause and effect (if it exists) for the matter is manifestly of great normative importance. Yet chapter two (and, indeed, the outcomes noted in chapter one) provide yet more suggestive evidence that, at the very least, financial services firms *look* as though they are attempting to buy influence. It is very difficult otherwise to explain why their PACs should contribute in exactly the ways we would expect from rational, strategic purchasers of influence – giving most to those members of Congress most able to provide the relevant legislative services. It seems scarcely possible that their contribution strategies should be marked by such high rationality and yet *not* serve

the rational purpose of seeking a legislative return on the investment. And given that we know firms behave as though they are buying influence and that the outcomes often appear as though influence has been bought, it seems right that political scientists do not abandon the as-yet vain search for the missing link just yet. As noted in chapter two, there has been much interesting work recently on different approaches to measuring the 'inputs' of interest groups, for example by concentrating on lobbying rather than campaign contributions, though we remain short of data here (for example, Baumgartner and Leach 2001). Perhaps though the main conclusion to draw from chapter one is that we need much better measures of outcomes too, as roll-call votes and even 'time in committee' (Hall and Wayman 1990) do not seem to capture adequately the reality of influence in the legislative process.

This thesis, then, perhaps raises as many questions as it answers. However, given the scale of the financial services industry and its importance both in recent events and over the past two decades, that is perhaps appropriate. As I suggested in the introduction, I can here provide only the beginnings of a foundation for understanding the complex interplay between the industry and the government. What is clear, however, as Congress wrestles with the causes and consequences of the most recent crisis, both legislative and commercial, is that such an understanding has rarely been so important.

### Appendix 2.1: Committee switching

<b>Committee Move</b>	<b>Number of MCs switching, 1989-2008</b>
To Commerce	73
To Ways and Means	57
To Banking	47
From Banking	77
To other committee	721
To party leadership	11
To committee leadership	109

## References

- Ansolabehere, S., de Figueiredo, J., & Snyder, J. Jr. 2003. Why is there so little money in U.S. politics? *Journal of Economic Perspectives*, 17(1), 105–130
- Ansolabehere, Stephen and James M. Snyder Jr. 1999. "Money and Institutional Power." *Texas Law Review*. June, 77, pp. 1673-704.
- Baumgartner, Frank and Beth Leech. 2001. Issue Niches and Policy Bandwagons: Patterns of Interest Group Involvement in National Politics. *Journal of Politics* 63, 4 (November): 1191-1213.
- Brunnell, Thomas. "The Relationship between Political Parties and Interest Groups: Explaining Patterns of PAC Contributions to Candidates for Congress". *Political Research Quarterly*, Vol. 58, No. 4 (Dec., 2005), pp. 681-688
- Becker, Gary. "A Theory of Competition Among Pressure Groups for Political Influence". *Quarterly Journal of Economics*. August. pp. 371-400
- Congressional Quarterly Almanac* 1989. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 1990. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 1991. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 1992. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 1993. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 1994. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 1995. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 1996. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 1997. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 1998. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 1999. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 2000. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 2001. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 2002. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 2003. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 2004. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 2005. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 2006. CQ Press. Washington DC.
- Congressional Quarterly Almanac* 2007. CQ Press. Washington DC.

- Congressional Quarterly Weekly* (1989-2008). CQ Press. Washington DC.
- Chappell, Henry W. Jr. 1981. "Campaign Contributions and Voting on the Cargo Preference Bill: A Comparison of Simultaneous Models." *Public Choice*. 36:2, pp. 301-12.
- Fenno, Richard. 1973. *Congressmen in Committees*. Boston: Little Brown.
- Fenno, Richard. 1978. *Home Style: House Members in their Districts*. Boston: Little Brown.
- Grier, Kevin B. and Michael C. Munger. 1991. "Committee Assignments, Constituent Preferences, and Campaign Contributions." *Economic Inquiry*. January, 29, pp. 24-43.
- Grier, Kevin B. and Michael C. Munger. 1993. "Comparing Interest Group PAC Contributions to House and Senate Incumbents, 1980-1986." *Journal of Politics*. August, 55:3, pp. 615-43.
- Hacker, Jacob and Paul Pierson, "Winner-Take-All Politics: Public Policy, Political Organization, and the Precipitous Rise of Top Incomes in the United States". Manuscript.
- Hall, Richard L. and Frank W. Wayman. 1990. "Buying Time: Moneyed Interests and the Mobilization of Bias in Congressional Committees." *American Political Science Review*. September, 3, pp. 797-820.
- Mayhew, David. *Congress: The electoral connection*. New Haven, CT: Yale University Press, 1974.
- Munger, Michael. 1988. "A Simple Test of the Thesis that Committee Jurisdictions Shape Corporate PAC Contributions". *Public Choice*. 62:181-86.
- Peltzman, Samuel. 1976. "Toward a More General Theory of Regulation". *Journal of Law of Economics*. 19: 211-48
- Romer, Thomas and James M. Snyder Jr. 1994. "An Empirical Investigation of the Dynamics of PAC Contributions." *American Journal of Political Science*. August, 38, pp. 745-69.
- Shepsle, Kenneth and Weingast, Barry. "Institutional Foundations of Committee Power." *American Political Science Review*, March 1987, 81(1), pp. 85-104.
- Snyder, James M. Jr. 1990. "Campaign Contributions as Investments: The House of Representatives, 1980-1986." *Journal of Political Economy*. December, 98:6, pp. 1195-227.
- Snyder, James M. Jr. 1992. "Long-Term Investing in Politicians, or Give Early, Give Often." *Journal of Law and Economics*. April, 35:1, pp. 15-44.
- Snyder, James M. Jr. 1993. "The Market for Campaign Contributions: Evidence for the U.S. Senate, 1980-1986." *Economics and Politics*. November, 5:3, pp. 219-40.
- Stewart, Charles and Jonathan Woon. *Congressional Committee Assignments, 103rd to 110th Congresses, 1993—2007*

- Sorauf, Frank J. 1992. *Inside Campaign Finance: Myths and Realities*. New Haven, Conn.: Yale University Press.
- Stigler, George. 1971. "The Theory of Economic Regulation", *Bell Journal of Economics and Management Science*. 2: 3:19.
- Stratmann, Thomas. 1992. "Are contributors rational? Untangling strategies of political action committees". *Journal of Political Economy*, 100(3), 647-664.
- Stratmann, Thomas. 1998. "The Market for Congressional Votes: Is Timing of Contributions Everything?". *Journal of Law and Economics*, 41(1), 85-113.
- Stratmann, Thomas. 2002. "Can Special Interests Buy Congressional Votes? Evidence from Financial Services Legislation." *Journal of Law and Economics*
- Weingast, Barry R. and Marshall, William J. "The Industrial Organization of Congress; or, Why Legislatures, Like Firms, Are Not Organized as Markets." *Journal of Political Economy*, February 1988, 96(1), pp. 132-63.
- Wright, John R. 1985. "PACs, Contributions, and Rolls Calls: An Organizational Perspective." *American Political Science Review*. June, 79:2, pp. 400-14.