Discussion of

Politician's Asset Allocation and Economic Bill Proposals

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by

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Background

- **Politicians and economic benefits**
  - Stop Trading on Congressional Knowledge (STOCK) Act of 2012
  - "60 members of Congress have violated a law designed to stop insider trading and prevent conflicts-of-interest" (7 May 2022)
  - On January 24, 2020, the Senate Committees on Health and Foreign Relations held a closed meeting with only Senators present to brief them about the COVID-19 outbreak. Following the meeting Senator Kelly Loeffler and her husband Jeffrey Sprecher, the chairman of the New York Stock Exchange, made 27 transactions to sell stock worth between $1,275,000 and $3,100,000 and 2 transactions to buy stock in Citrix Systems.
  - Senator David Perdue made a series of 112 transactions with stocks sold for around $825,000 and bought stocks worth $1.8 million. Perdue started buying around $185,000 in stock in DuPont, a company that makes personal protective equipment, on the same day as the Senate briefing up to March 2
- **This paper:** Do politicians legislate differently as a function of their economic incentives?

Predictions

Politicians are economically motivated

- Will not propose (vote for?) bills that may threaten their portfolio
  - Real estate properties (49% of wealth)
  - More RE holdings ➔ less likely to propose bills that would tighten the RE market
  - Exogenous (-) shocks to RE value in their portfolio ➔ less likely to propose
- In aggregate:
  - Congress sessions with more exposure to the RE market ➔ Fewer economic bills tightening the RE markets

Proposing vs voting on bills?

- Selection issue: who gets to propose RE bills?
- What is the likelihood of a bill's passing?

Panel A: All Congress Members	(1)	(2)	(3)	(4)
	Log # of Tightening Bills Proposed		*Log # of Tightening Bills Approved*	
Aggregated Ratio of Real Estate	-2.466***	-2.614**	-2.677*	-2.691*
	(-4.06)	(-2.97)	(-2.11)	(-2.43)
GDP Growth		-0.308		-10.949*
		(-0.18)		(-1.97)
HPI Growth		-2.067		-4.164
		(-0.51)		(-0.89)
Observations	10	10	10	10
Adjusted R-squared	0.527	0.386	0.259	0.235
Panel B: Leading Party Members	(1)	(2)	(3)	(4)
	Log # of Tightening Bills Proposed		*Log # of Tightening Bills Approved*	
Aggregated Ratio of Real Estate	-1.568***	-1.563**	-1.684**	-1.603**
	(-3.91)	(-2.87)	(-2.65)	(-2.49)
GDP Growth		-1.040		-11.714
		(-0.25)		(-1.47)
HPI Growth		-0.257		-2.283
		(-0.05)		(-0.37)
Observations	10	10	10	10
Adjusted R-squared	0.641	0.526	0.316	0.305

- Why examine individual proposal behavior rather than individual voting behavior?

Selection / Election

- What are the incentives to join the Congress?
  - Vary with Real Estate market condition?
  - Vary with RE portfolio holdings?
- What about the incentives to join the committee responsible for RE markets?
  - Vary with RE portfolio holdings?
  - Proposals are almost always approved
  - This seems like a more important/relevant decision
- The causality may be reversed if these are correlated with RE market conditions
  - Identification tests rely on small samples:
    - Only 5% have holdings in border region; only 2% of their portfolios
    - Only 7% have holdings in Earthquake region; only 3%(?) of holdings

Ruling party?

- Effect is (much) weaker for the ruling party?

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- Is the likelihood of success/approval higher for ruling party's proposals?
  - How does this change the dynamic of proposing?

Aggregate effect

- I am nervous about making grand statements (or inferences) using only 10 observations:

Observations	10	10	10	10
Adjusted R-squared	0.641	0.526	0.316	0.305

- Need a lot more information regarding the time-series properties – e.g., graph with all variables:
  - Aggregate ratio of RE holdings
  - Tightening RE bills: # of proposal, # enacted
  - Loosening RE bills?
  - **Total number of RE bills?**
  - **RE market conditions?**
- In general, why use LPM(?) instead of count models?

Categorization of bills

Main result using NLP:

	(1)	(2)	(3)	(4)
	Tightening Real Estate			
Ratio of Real Estate	-0.164**	-0.141**	-0.153***	-0.167***
	(-2.32)	(-2.38)	(-2.61)	(-2.90)
Observations	1,821	1,821	1,821	1,821
Adjusted R-squared	0.009	0.148	0.179	0.245

"For the subset of years from 2015 to 2020, the Korean government officially categorizes all proposed bills on their policy direction (i.e., tightening vs. loosening)."

	(1)	(2)	(3)	(4)
	Tightening Real Estate (Government sorted)			
Ratio of Real Estate	-0.262**	-0.194*	-0.191*	-0.233**
	(-2.22)	(-1.72)	(-1.71)	(-2.06)
Observations	1,091	1,091	1,091	1,091
Adjusted R-squared	0.013	0.137	0.150	0.234

Categorization of bills

"For the subset of years from 2015 to 2020, the Korean government officially categorizes all proposed bills on their policy direction (i.e., tightening vs. loosening)."

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- Why not use the **official categorization** as the main sample?
  - Avoid unnecessarily introducing noise in variables
- **Augment using NLP** for the missing years
  - How well does the NLP predict the official categorization?

General observations

Interesting research

- Interesting results
- First part is consistent with my prior
  - Include selection analysis, which I think is a relevant and interesting component
- Second part seems shaky
  - N=10 ➔ eyeball tests?

Is this surprising?

- The lobbying industry: $3+ Billion in the US
- Scandals in Korea: 4 of last 6 presidents
- Market effect!

Policy implications?

- STOCK Act: Light punishments, continued flouting

Minor issues / suggestions

Rural vs. Urban: Stronger results for non-metro

- Members representing rural vs. urban areas?

Stock ownership: Very low (3% of portfolio?)

- What about ownership of REIT / RE companies?

Exclusion restriction

- Conflicts with NKorea affect RE markets directly?

Aggregate regressions

- "Change" regression instead of "level" regression?

Large number of RE holdings: ~ RE ratio?

- Are you just running a quadratic model?

Entrenched members: Table 6

- More likely to propose tightening measure; why?