Abstract: Was the 2008 financial crisis due in part to the changing risk orientations of members of Congress? Do the risk orientations of public officials influence policy choices? We theorize that risk-accepting members of Congress are likely to favor financial and housing market deregulation, while risk-averse members are not. We test these expectations by examining congressional actions in the years leading up to the 2008 financial crisis, focusing on those congressional decisions that deregulated financial markets. We measure legislator risk orientations through legislators’ publicly disclosed personal financial investments. Members of Congress whose stock portfolios are not diversified or who make high-risk investments are considered risk accepting, while members of Congress with well-diversified stock portfolios or who make low-risk investments are considered risk averse. Evidence suggests that members of Congress who were personally risk averse in their own finances were least likely to support policies deregulating the financial and housing markets that led to the 2008 economic crash. The normative implications are significant, and raise questions about the role of legislators’ private interests in the public sphere.

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“The true forms of government...are those...which...govern with a view to the common interest; but governments which rule with a view to the private interest...are perversions.” – Aristotle, *Politics.*

“The chance of gain is naturally over-valued.” – Adam Smith, *Wealth of Nations.*

In political representation, there is the possibility for tension between elected officials’ private interests and how these private interests are constrained by political institutions and the policy-making process (Mill 1861). In addition to considering constituency and other interests, public officials draw on personal experiences to inform their policy choices (Mansbridge 2009). Elected officials are particularly likely to consider their own personal preferences when there is uncertainty about the preferences of the public (Yoshinaka and Grose 2011), when the issue is personally salient to the elected officials, and when political parties or constituencies do not have well-crystallized views. Despite this theoretical work asserting connections between officials’ private preferences and government decisions, most work on legislative institutions assumes that elected officials are motivated primarily by reelection (Mayhew 1974). We know very little about whether elected officials make policy in their own private interests.

Do legislators’ private financial interests and personal inclinations to take financial risks have an impact on public policy? One critical policy area in which public officials’ private interests and preferences could matter is financial deregulation, particularly in the period leading up to and after the 2008 financial crisis. While the financial crisis has been examined for the role that ideology played in legislative decisions (e.g., McCarty, Poole and Rosenthal 2013), no one has posited that legislators’ personal propensities to engage in more risky investments had an impact on policy decisions that led to and were a reaction to the financial crisis. Were government officials more willing to deregulate the financial markets prior to the 2008 financial crisis because they themselves were personally open to investing in risky assets? Similarly, were government officials more likely to “bail out” financial and other private institutions during the 2008 financial crisis because of their own private financial interests or due to their inclinations toward financial risk-taking?

We theorize that public officials consider their private financial interests when making choices to support or oppose legislation. Legislators with equity investments in firms that will benefit from government intervention are more likely to support bills that benefit those firms, and legislators with significant equity holdings generally tend to favor legislation that will help the stock market. We also theorize that legislators’ risk preferences shape
their policy choices. Legislators who allocated significant proportions of their own personal assets in risky investments such as stocks are more likely to support legislation that will enhance these assets, while legislators who allocated larger proportions of their asset portfolios to safer investments are less likely to vote for policy that creates more systemic risk in the national economy.

Our theory suggests that legislators who have large appetites for personal financial risk – namely those who are heavily invested in risky assets as a proportion of their overall investment portfolios – are more likely to favor public policies that could increase their specific stock holdings or that could pump the stock market generally. If our theory is correct, the willingness for legislators to take substantial risks in their personal finances should be associated with their willingness to vote for legislation that also creates financial bubbles and systemic risk in the national economy. Thus, the theory helps explain why some conservative legislators voted for the financial “bailouts” during the financial crisis, and why many liberal legislators supported deregulation of the banking industry in the late 1990s.

We find empirical support for our theory’s implications when we study two key congressional votes in 1999 and 2000; and three critically important congressional votes in 2008. We find that legislators’ personal financial interests and/or their risk preferences are associated with the likelihood of supporting the repeal of Glass-Steagall (the Gramm-Leach-Bliley bill in 1999) and with the passage of the Commodity Futures Modernization Act of 2000. In particular, those legislators who were the most risk averse in how they chose to determine their personal asset allocation strategies were much less likely to vote in favor of these deregulatory finance bills relative to legislators who had very aggressive, risk-oriented personal financial portfolios. Similarly, in the TARP votes in 2008, we find that risk-accepting legislators were more likely to vote to spend trillions of dollars to “bail out” financial institutions than were risk-averse legislators. In addition, we find evidence that legislators’ stock investments in specific firms most likely to benefit from the passage of these bills – such as Citi, GM, and Ford – are associated with legislator support for the bills.

The puzzle of the financial crisis: Why did pro-regulatory legislators favor deregulation of/in the financial industry and why did free-market legislators favor government intervention in the economy?

In the late 1990s, the U.S. economy and stock market were booming. It was a golden era for the economy, and many Americans felt they were doing well economically. During this period, members of Congress and others
in the Washington community sought to deregulate the financial industry. For decades, free-market conservatives had argued that the banking and financial industries needed to be deregulated in order to allow for more innovation and economic growth. The Glass-Steagall Act, a law passed in the wake of the Great Depression, was the target of many of these free-market reformers. In order to prevent systemic risk to the overall economy and the creation of banks “too big to fail,” Glass-Steagall required that traditional banks – those that handled customer checking and savings accounts – could not be involved in investment banking; and that investment companies could not engage in activities conducted by traditional banks. For decades, no successful attempts were made by Congress to repeal Glass-Steagall.

In 1999, action was taken. A Republican-controlled Congress passed and Democratic president Bill Clinton signed the Gramm-Leach-Bliley Act, which was a law that effectively repealed the Glass-Steagall Act. With the passage of Gramm-Leach-Bliley, investment and traditional banking could be coupled together and conducted by the same firm. The benefits were greater innovation, potential economic and stock market growth, and increased profits for the financial industry and its firms’ shareholders, though Gramm-Leach-Bliley created significantly more risk for the nation’s economy. Surprisingly, this law passed with support of both conservative free-market Republicans and liberal Democrats and moderate Republicans who had not previously been as open to deregulation (McCarty, Poole, and Rosenthal 2013). One puzzle is why this and other late-20th century deregulatory reforms to the financial industry – which are partly to blame for the financial crisis of 2008 – were supported by some legislators whose ideologies and partisanship would suggest preferences for greater regulation.

Less than ten years later, in 2008, Congress again faced decisions to dramatically change the role of government in the financial sector and the American economy. In the wake of a precipitous stock market crash and the financial crisis in 2008, the Emergency Economic Stabilization Act (better known as TARP, or the Troubled Asset Relief Program) and the Auto Industry Financing and Restructuring Act (better known as the “auto bailout”) were passed by a Democratic-controlled Congress and signed by Republican president George W. Bush.

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1. We do not mean to imply that party and ideology were not factors, as they were. However, on these financial regulatory issues there were often atypical cross-partisan coalitions not often seen on other issues.

2. TARP initially failed when brought up for a vote in the U.S. House, but it eventually passed a few days later.
These bills dramatically increased the federal government’s intervention in the economy in ways not seen since the
Great Depression. Even though these bills were instances of partial “nationalization” of the finance and automobile
industries in the United States, legislator ideology and party did a poor job of explaining legislators’ roll calls
(particularly in the case of TARP; McCarty, Poole, and Rosenthal 2013). Some conservative Republicans voted for
government intervention, while other Republicans were opposed; and Democrats of all ideological stripes were
also split on whether the government should intervene so extensively in the financial sector during a time of crisis.

Thus, we are left with a puzzle. Why did some legislators – contrary to ideological, partisan, or
constituency preferences – vote to deregulate the financial industry in the 1990s and 2000s and then vote to
intervene in the private sector in 2008? One of the reasons that Congress both deregulated the financial industry in
the late 1990s and 2000s; and that Congress was willing to “bail out” private industries in 2008 is related to
legislators’ personal finances. How legislators perceived their own private financial interests and personal appetites
for financial risk during those periods is associated with their policy choices. To understand when and why
Congress is willing to expose the country to greater financial risk and government intervention in the economy, we
offer a theory of legislator financial interests and risk preferences.

Theory: Legislator Finances and Risk Preferences Influence Policy

We argue that government officials bring their own personal interests and personal experiences to bear
when making policy regulating the nation’s economy and its private sector. We theorize that legislators’ actions to
regulate and deregulate industry are influenced by (1) the legislators’ private financial interests; and (2) whether the
legislators are risk-averse or risk-accepting in their own financial investments.

Private financial interests and public officials’ decisions: equity exposure by legislators

In addition to seeking reelection (Mayhew 1974) and being motivated and constrained by political,
partisan, and policy goals (e.g., Fenno 1973; Cox and McCubbins 2005), legislators are also informed by their
personal backgrounds and experiences (e.g., Butler and Broockman 2012; Haynie 2001; Grose 2011; Whitby
1997). Legislators and other public officials would prefer to pass legislation that may positively influence their own
investments and asset portfolios. Similarly, in times of economic retrenchment, public officials prefer to make
public policy that will help their own investments. In general, legislators are more likely to support significant
changes to the role that the government plays in private industry when those policy changes benefit or reduce harm to the legislators’ financial assets.

Legislators, like regular investors, are assumed to prefer to see their financial assets grow in value rather than decline in value or remain stagnant. For the purpose of our theoretical discussion, a financial asset is defined as any financial or property holding that an individual owns that has monetary value. All else equal, legislators want to see their assets grow in value; and would not like to hold assets that will permanently decline in value.

When any individual is faced with a decision that could maximize the value of their financial assets, they will make the choice - conditional on other constraints - that will increase the value of their assets. There is no reason to expect legislators to differ from typical investors in this regard. Legislators also want to maximize their wealth and the size of their asset portfolios.

Unlike regular investors, legislators often make choices that have direct and indirect effects on the value of their underlying assets. Congress makes policy that affects financial markets; and that regulates and deregulates industries and corporations. Governmental decisions to intervene or to deregulate private markets and industries have significant implications for markets. Some major policy choices before Congress have the potential to substantially influence the aggregate stock market, the real estate market, bond prices, and interest rates. These policy interventions sometimes create greater, long-term risk in the national economy while at the same time creating more opportunities for short- or medium-term growth in the stock market. Alternatively, other policy interventions may reduce risk to the overall national economy through regulation, but may also limit the growth of economic markets.

Therefore, legislators who are heavily invested in the stock market - in both absolute and relative terms - may be more likely to support major legislation that will enhance the value of the stock market. Government bailouts of specific industries in times of economic crisis will often help the entire stock market. Similarly, deregulation of the financial sector is likely to lift the stock market generally. Thus, we posit the equity interests hypothesis. Public officials with substantial exposure to equities are likely to favor legislation that will prime and pump the stock market, while legislators with less invested in the equities markets may not.

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3 We do not consider human capital and related concepts in our discussion of assets.
**Legislator choices and stock holdings in specific firms**

Similarly, legislators with investments in specific firms in which there is government intervention will vote in the direction that favors these firms. When a legislator is heavily exposed to an individual firm’s stock, for instance, they are much more likely to support public policy that will increase the value of the stock. In economic crises, these same legislators will be aware of how poor the firm’s stock price is doing since they own it, and will thus be more likely to engage in intervention to help the company or industry in order to buttress a sagging stock price.

In the case of some firms, legislators (and interested public observers) will know that legislative actions are likely to affect the firms’ stock prices. For instance, during debate over Gramm-Bliley-Leach in 1999, Citibank and Travelers Insurance had already begun a merger. The primary holdup to the completion of the merger was that Congress had not repealed Glass-Steagall, which would have technically prohibited these two firms from merging (as one engaged in traditional banking and the other engaged in investment banking). The passage of Gramm-Leach-Bliley had obvious financial ramifications for those investors – including members of Congress – who owned stock in Citibank and Travelers. Had the law not passed – and barring any administrative actions nevertheless allowing the merger – Citi’s stock price likely would have dropped as shareholders anticipated that Congress would pass the Glass-Steagall repeal. In this instance, we would expect that legislators holding substantial amounts of stock in Citi or Travelers would in particular push for and vote for passage of this bill.

We anticipate this pattern can be observed on many policy decisions in Congress where specific firms are likely to benefit from passage or failure of legislation. Legislators whose portfolios will increase due to a firm benefiting from a legislative outcome will be more likely to support the policy that favors the firm. This leads us to the *individual stock interests hypothesis*. Legislators who have a personal financial interest in the value of an individual firm’s stock increasing will support legislation that helps that specific firm. Legislators not invested in that specific firm will be much less likely to consider the underlying price of one firm’s stock, even if the stock is a major U.S. corporation.

**Legislator risk preferences: asset allocation strategies and the role of legislator risk aversion**

In addition, we theorize that legislators’ financial risk preferences shape their choices in governmental decision-making. Theoretically, based on the classical portfolio model, all investors’ portfolios are better off if they
include risky assets as well as less risky assets (Cass and Stiglitz 1975). If individuals are utility maximizers, then the
individual asset portfolios are predicted to have “a riskless asset and a portfolio of risky assets” (Cohn et al. 1975).
However, individuals are willing to take on different levels of financial risk (Arrow 1975; Pratt 1964). In
expectation, a payoff may be equal but higher gains or losses can occur when the asset type is riskier than when it is
not as risky.

Like regular investors, legislators’ acceptance of risk in their financial investments will vary across legislators. Some legislators will be more risk averse, and allocate substantial portions of their assets in nearly risk-free investments (e.g., checking and savings accounts, certificates of deposit, money market accounts) or in less risky investments (e.g., bonds). Other legislators’ personal asset allocation portfolios may be more aggressive with larger proportions invested in riskier assets like stocks, equities, and real estate. The decision to invest more or less in risky assets is conditioned in part on the appetite for financial risk of the individual investor. More risk-averse individuals will choose to have more assets in risk-free investments such as checking and savings accounts, or possibly bonds. More risk-tolerant individuals will choose to have a greater proportion of their assets in riskier investments (Cohn et al. 1975; Riley and Chow 1992).

In studies of regular investors, some empirical evidence suggests that wealthier individuals are more likely to have a greater proportion of risky assets in their asset portfolios (Cohn et al. 1975; Riley and Chow 1992). Interestingly, when studying members of Congress, nearly all of them are well above the national average for wealth (Carnes 2013). Thus, any variation in risk appetite as revealed by asset allocation in legislators’ portfolios is likely to measure preferences for financial risk tolerance and not simply be a function of wealth.

In terms of how legislators’ personal inclinations to take financial risks will influence public policy decisions, we theorize that these will independently influence choices in addition to the private interests hypotheses. Legislators who are risk accepting and aggressive in their own asset allocation portfolios will be less concerned that public policy might create more systemic risk in private markets (in the case of 1990s and 2000s-era financial market reforms) or create more systemic risk for the government (in the case of the 2008 bailouts).

Essentially, legislators who are comfortable with aggressive asset portfolios for their own investments - those that are heavily exposed to riskier investments such as equities and real estate - are also most likely to vote for legislation likely to enhance the overall stock market but that could increase systematic risk or government risk
exposure. In contrast, risk-averse legislators – those with less risky investments – will be much more concerned about the systemic risk to markets or government that could be created due to financial deregulation and regulation.

Legislators will think about their own attitudes toward financial risk when considering public policies that will alter or restructure financial and other private industries. This leads to the risk aversion hypothesis. In “boom” times, more financially risk-averse legislators are less likely to deregulate, while more financially risk-tolerant legislators are willing to deregulate. During “bust” times, such as the financial crisis, elected officials who are more risk tolerant – and thus exposed to risky assets in their own investment portfolios – are more likely to vote in favor of government intervention in the economy.

**Legislators and private financial interests: what we know**

While there has been no work on public officials’ financial risk preferences and policy choices; and little work on private financial interests of legislators, we know that legislators’ personal preferences matter in the choices that public officials make (e.g., Burden 2007). There is also some work that associates legislator decisions with personal financial interests, but it is not extensive.

The only published study examining legislators’ personal investments and the policy choices of members of Congress is Welch and Peters (1983), who examined personal financial holdings in one sector, that of “agricultural enterprises.” They found no direct effect between financial holdings in the agricultural sector on agriculture-related votes. In contrast, Grose (2014) has argued that legislators make policy choices based on the extent to which they are exposed to the stock market – and found an association between total equity holdings and roll-call voting in Congress. He found that legislators who are heavily exposed to the stock market were most likely to vote to increase the nation’s debt limit.

While there is little work on public officials’ ownership of risky assets and their subsequent policy choices, there is some work looking at the role that financial interests play in the decisions that public officials make. Griffin and Anewalt-Remsburg (2013) argue that the personal wealth of legislators affects tax roll calls, and that those most likely to be personally affected by the estate tax oppose it due to their own personal, financial circumstances. They find a relationship between overall wealth – as measured by the total net worth of members of Congress – and willingness to support tax breaks. Carnes (2012) has studied whether class backgrounds of legislators are associated
with legislative decision-making, while Witko and Friedman (2008) have argued that legislators with business backgrounds are more likely to have pro-business voting records. Heckelman and Dougherty (2010) find a link between the financial interests of U.S. Constitutional Convention delegates and their decisions regarding constitutional adoption.

Scholars have also examined whether members of Congress’s stock portfolios “beat” the market (Ziobrowski et al. 2004; Eggers and Hainmueller 2013), and how changes in the majority control of the chamber influence stock prices of Democratic and Republican-leaning firms (Hartog and Monroe 2008. Others have focused on the influence of pensions or the ability to convert campaign cash to personal use on the legislative decision to retire (e.g., Hall and Van Houweling 1995; Groseclose and Krehbiel 1994) or have studied the decision of legislators to increase their salaries (e.g., Bianco 1994, Clark 1996; Theriault 2004). Yet none of these works on markets, political institutions, and representation have argued that personal investments of elected officials are associated with policy choices.

**Empirical Analysis: Key Congressional Actions Before and During the Financial Crisis**

In considering the association between the financial preferences of public officials and policy outcomes, we analyze five U.S. House roll-call votes from the late 20\textsuperscript{th} century and early 21\textsuperscript{st} century during which the prevailing attitudes toward the regulation and deregulation of financial markets differed rather markedly. The first two roll-call votes analyzed occurred during the 106\textsuperscript{th} Congress (1999-2000), a time of general financial optimism in which many members of both parties advocated for the deregulation of financial markets as a tool to promote economic growth and prosperity. The other three roll-call votes occurred in 2008 and are arguably the three most important votes taken to combat both the effects of the global financial crisis. All roll calls examined were the key vote in the House prior to the bill being sent for the president’s signature. In instances where conference was needed, this means we analyze the roll call on the conference report. In other cases in which the House and Senate versions were identical and there was no conference, we look at the final passage votes in the House. In addition to being the key pre-crisis and during-crisis votes, these bills from both the 106\textsuperscript{th} (1999-2000) and 110th Congresses (2007-08) provide an opportunity to examine how the personal financial preferences of members of Congress affect their regulatory choices because the votes analyzed did not always fall along traditional partisan lines.

**Financial Services Modernization Act of 1999.**
The first roll call we examine is the conference vote for the Financial Services Modernization Act of 1999. Discussed earlier and commonly referred to as the Gramm-Bliley-Leach Act, this law represented a dramatic overhaul of federal banking regulation by allowing for the functional components of investment banks, commercial banks, and insurance companies to be merged and operate as a single institution. The separation of the three had been mandated by the Glass-Steagall Act of 1933. Once Gramm-Bliley-Leach passed, the result was increased integration of various financial services in what was framed as an attempt to “enhance competition in the financial services industry.”

Significantly, Gramm-Bliley-Leach was passed in the wake of the pending creation of Citigroup. Citigroup was formed in a merger between commercial banking outfit Citicorp and Travelers Insurance a year prior to the passage of Gramm-Bliley-Leach in apparent violation of Glass-Steagall, but granted a temporary waiver by the Federal Reserve. The Fed granted the waiver as there was an assumption that Congress would change the law to allow this type of merger. Thus, shareholders in Citicorp and Travelers Insurance had an incentive to favor this legislation. Had Gramm-Bliley-Leach not passed, the stock prices of Citicorp and Travelers would have likely gone down.

**Commodity Futures Modernization Act of 2000 (CFMA)**

The Commodity Futures Modernization Act (CFMA) organized the federal regulation of financial derivatives in such a way that guaranteed relaxed levels of scrutiny for transactions involving over-the-counter derivatives, including credit default swaps, by either the Commodity Futures Trading Commission (CFTC) or the Securities and Exchange Commission (SEC). Many argue that this deregulation of the derivatives market, combined with lax bureaucratic enforcement during the Bush administration, paved the way for the housing bubble of the 2000s and subsequent housing and stock market crash eight years later.

The CFMA was initially proposed as a standalone bill, but this bill never made it to the floor of the House. Nevertheless, the CFMA passed both houses of Congress after its inclusion as part of an appropriations bill at the end of the calendar year 2000. This appropriations bill – with the CFMA inserted at the 11th hour – was the last roll call of the 106th House on December 15, 2000. Because the CFMA was part of a broader appropriations bill, it is possible the relationships between our key variables measuring legislators’ financial interests and risk preferences

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4 This quotation is from the text of the Act.
may be weaker than when examining the other roll calls.

**Emergency Economic Stabilization Act of 2008 (TARP)**

The other roll-call votes analyzed took place in the chaotic initial months during which the legislative and executive branches of the government began to contend with the fallout of the subprime mortgage crisis, including its consequences for domestic and global securities markets. While these votes by Congress were not strictly regulatory nor deregulatory in nature, they nevertheless represent massive government intervention in crucial sectors of the American economy.

The first two votes concern the Emergency Economic Stabilization Act of 2008, which created the Troubled Asset Relief Program (TARP). The bill authorized the Executive branch to purchase failing bank assets in an effort to stabilize the financial sector. The roll call failed initially in the House on September 29, 2008. Continued turmoil in the securities markets, including significant drops for all major US stock exchanges, led to more widespread support for the creation of TARP. The second roll call on TARP passed the House on October 3, 2008. This law gave massive amounts of money directly to financial industry firms to guard against collapse. This bill was likely favored by those who did not want to see the stock market fall any further, and by those with investments in financial institutions that had “failed” prior to October 3.

**Auto Industry Financing and Restructuring Act of 2008**

The last roll-call vote we analyze is the Auto Industry Financing and Restructuring Act of 2008, or the so-called auto bailout. This legislation provided financial relief in the form of emergency loans to the “big 3” American auto manufacturers, which were widely believed to be on the brink of failure: General Motors, Ford, and Chrysler. This roll call was the last one of the 110th Congress, held on December 10, 2008. This bill clearly provided short-term assistance for automobile companies, but was also favored by some wanting to stem the decline of the stock market generally.

**Data: Personal Financial Investments of Legislators**

Since 1978, members of Congress and other federal officials have been required to file financial disclosure forms. On the forms, members are required to report individual holdings and dollar amounts
of all assets. Four research assistants and the authors read and coded the financial disclosure reports filed during 1999 and 2008. While the financial disclosure forms are available as PDFs, these forms are often handwritten by the members or their staffs so the research assistants were required to manually code the data. We coded the total amount of dollars invested in assets across a number of categories: stocks, mutual funds, retirement accounts, real estate holdings, cash accounts, bonds, and other. We also created a dataset of each individual asset held by members of Congress during these two time periods. This original dataset includes over 100,000 individual assets and dollar values.

Past work analyzing the personal wealth of members of Congress has simply relied upon aggregated wealth data already available from the Center on Responsive Politics (Griffin and Anewalt-Remsburg 2013). Given our interest in equity ownership and asset allocation strategies, which the Center does not code, we were required to uniquely code each asset across all House members. In the instances of incomplete disclosure forms, we excluded those members from analyses below. We used the original asset-legislator dataset and asset codings to construct our key independent variables in models that we describe below.

**Empirical Models**

In order to analyze the relationship between risk profiles of legislators and their votes on financial legislation, we estimate five logit models, one for each of the roll-call votes described above. In all five models, the unit of analysis is the U.S. House representative and the dependent variable is coded 1 if the legislator voted yea and 0 if the legislator voted nay.

**Model 1:** In the first model, we analyze votes in the House for the Gramm-Bliley-Leach Act, which allowed for the integration of traditional and investment banking. The first independent variable of interest is *Risk Aversion*, which measures the extent to which legislators are more or less aggressive and averse to risk in terms of their investment strategies. Risk-averse legislators tend to prefer investments that expose them to fewer potential

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5 These holdings are reported within a range (e.g., a member reports holding Bank of America stock, $15,000 to $50,000). Because a range is reported, the mean values of these aggregated ranges are used in the analyses.

6 Legislators who abstained are excluded from the analyses.
losses, while risk-accepting legislators manage their asset allocation with a greater willingness to hold risky assets. Legislators' risk aversion is calculated based on the following method of classifying their investments. First, we added together the total dollar amount of assets that the legislator reported in the following four categories: equities, real estate, bonds, and cash or money market accounts. Equities include individual stocks, mutual funds, and retirement accounts. Real estate assets include real estate owned for income or wealth creation purposes, as well as real estate investment trusts (REITs). Bonds include all types of bonds, whether government, corporate, or otherwise. Cash includes assets held in cash accounts, savings accounts, certificates of deposit, and money market accounts. The four categories are intended to represent different degrees of risk acceptance on the part of the investor, ranging from relatively risky holdings (equities, real estate) to relatively stable assets (cash). Bonds are less risky than equities and real estate, but more risky than cash accounts.

After the classification and summation of legislators' financial holdings, the risk aversion variable was created by the following formula: 

\[ 1 \times \text{equity holdings proportion} + 1 \times \text{real estate holdings proportion} + 2 \times \text{bond holdings proportion} + 3 \times \text{cash holdings proportion} \]

This variable thus measures the aggressiveness of each legislator's investment strategy, i.e., their tendency to engage in risky investments. Larger values indicate a risk-averse, less aggressive asset holding strategy (a value of 3 on this scale would indicate 100% of assets held in cash, the least risky possible investment profile). Smaller values indicate a more aggressive, risk-accepting asset holding strategy based primarily on holdings in equities or real estate.

The Risk Aversion variable as described here is similarly calculated and employed as an independent variable across all five models in the paper. We expect that legislators with higher values on the Risk Aversion variable were less likely to vote in favor of the Gramm-Bliley-Leach Act. Given that this bill created greater systemic risk by allowing the merger of different types of financial institutions, risk-averse legislators are less likely to vote for this than are risk-accepting legislators. This variable tests the risk aversion hypothesis. Also, because this variable is an index of proportions, it measures relative risk aversion of legislators.

Because Gramm-Bliley-Leach occurred as a near-direct result of the formation of Citigroup as a merger of Citicorp and Travelers Insurance, we also measure whether legislators voting on the Act owned Citi or Travelers Stock. This variable is measured as the proportion of legislators' stock holdings in Citi or Travelers and tests the individual stock interests hypothesis. If legislators vote based on their private financial interests, legislators with a
significant personal financial stake in the continued existence of a merged Citigroup will vote for this bill. Had
Gramm-Bliley-Leach failed, Citigroup’s temporary waiver lapsed, and the merger been voided, stock in either or
both corporations would likely have lost value.

The third independent variable measuring legislators' personal financial interests is the amount of Total
equities, which represents the total of each legislator’s holdings in equities (stocks, mutual funds, and retirement
accounts), measured in 100,000s of dollars. This variable measures absolute risk exposure to the stock market
since it is measured in dollar amounts, while the Risk aversion variable measures relative risk aversion (these two
variables were surprisingly not highly correlated in our models). We anticipate that members of Congress with
greater amounts in equities were more likely to vote in favor of Gramm-Bliley-Leach. With the passage of the bill,
there was anticipation that the stock market would increase and thus legislators with significant amounts of Total
equities are more likely to vote for the bill.

We employ a number of control variables in Model 1 to account for other factors or characteristics of the
legislators that might have affected their votes on Gramm-Bliley-Leach. The first, Party, is coded as 1 for
Democrats and 0 for Republicans. We expect that Democrats would have been less likely to vote for Gramm-
Bliley-Leach than were Republicans because Democrats often prefer more government regulation of the financial
sector. We control for Ideology as measured by the first-dimension DW-NOMINATE score for each legislator,
and expect that more liberal members of Congress would be more likely to vote against the deregulation of banks
as well. We account for the Median Income for households in each legislator’s congressional district to control for
constituency influence. Members of Congress from high-income districts favor deregulation and are more likely to
vote for Gramm-Bliley-Leach. We also include a variable to measure the underlying partisan characteristics of the
legislators’ constituents by controlling for the Democratic Presidential Vote Share in the district. Legislators from
more Democratic districts may be more likely to oppose Gramm-Bliley-Leach. Lastly, we account for legislators’
Total Assets measured in 100,000s of dollars, and we expect that legislators with more total assets were more likely
to vote in favor of financial deregulation. This is an important control variable to make sure the equity and risk
aversion variables are not proxying for overall wealth.

7 The measure includes riskier holdings such as stocks, mutual funds, and retirement accounts based on the assumption
that retirement accounts include large amount of equities, although we cannot know for sure given limitations on the data
in the financial disclosure forms.
**Model 2:** In the second model, we analyze the relationship between legislators' roll-call votes for the appropriations bill containing the Commodity Futures Modernization Act and legislator risk preferences and financial interests. Like model 1, the model contains *Risk Aversion* as an independent variable, and we expect that members of Congress whose asset allocations were more risk-accepting were more likely to vote in favor of the CFMA. Because this bill introduced new risk to the financial market place by deregulating the derivatives market, more risk-oriented legislators are more likely to support this bill and more risk-averse legislators are less likely to support this bill. The bill “ensured virtually no regulation of the complex financial instruments known as derivatives, including credit swaps, contracts that would encourage risky investment practices at Wall Street’s most venerable institutions…”

To test the individual stock interests hypothesis in model 2, we measure legislator investments in large bank stocks using the variable *Big Bank Stock*, which was not included in model 1. This variable is included as legislators who are shareholders in the largest banks are the ones most likely to favor and benefit from this policy change, at least as the policy change was perceived when passed in 2000 since very few anticipated that this reform would partially lead to the financial crisis. While numerous financial institutions could potentially engage in more extensive derivatives trading using credit default swaps after CFMA passage, the largest banks were the ones most interested in this deregulatory reform. Five banks – Citi, JP Morgan Chase, Bank of America, Wachovia, and HSBC – engaged in the large bulk of risky credit default swaps in the wake of the CFMA, and these banks were also proponents of the CFMA deregulations. These banks anticipated increasing profits due to the CFMA, and thus we anticipate that legislator shareholders in these same banks would be more likely to support the bill. The variable was calculated by adding together the total dollar value of legislators’ stock holdings in Citi, JP Morgan Chase, Bank of America, Wachovia, and HSBC and dividing this amount by the total dollar amount of the legislator’s stock holdings. Thus, the *Big Bank Stock* variable is the proportion of a legislator’s stock holdings in these five large banks.

We once again consider legislators’ *Total Equities* and expect that legislators with larger absolute dollar amounts of stock, mutual fund, and retirement account assets were more likely to vote for the passage of the CFMA. It may be the case that simply owning large amounts of equities is associated with anticipated personal

---

benefits upon ensuring the deregulation of the derivatives market, if the legislators assume that this deregulation will help the stock market generally.

As in Model 1, we account for legislators’ Party and Ideology and expect that Democrats and liberals were more likely to vote against the deregulatory CFMA. Similarly, we control for the district Median Income and expect that members of Congress from wealthier districts were more likely to vote for passage of the CFMA, as were legislators with greater amounts of Total Assets. We account for district partisanship by including the Democratic Presidential Vote Share and expect that members from more Democratic districts were less likely to support the CFMA.

Model 3: In the third model, we consider the September 2008 roll-call vote on the Emergency Economic Stabilization Act of 2008, in which the House rejected a proposal for the creation of TARP. We expect that legislator Risk Aversion, where higher values indicate more risk aversion and lower values indicate more risk acceptance, will be associated with votes against TARP. Legislators with riskier or more aggressive asset allocation strategies would have been more likely to locate personal benefits in providing bailouts to the financial industry, as the stock market was plummeting prior to and during congressional consideration of this bill. In contrast, more risk-averse investors who had a larger proportion of cash assets would have been more wary of incurring more risk to the government and given that TARP would be unlikely to affect their less volatile asset holdings.

To examine the relationship between individual stock ownership interests and votes on the Emergency Economic Stabilization Act, we include the independent variable Failed Financial Stocks, which measures the legislator’s 2008 proportion of stock holdings in financial companies that had gone under or that were forced to substantially restructure to avoid bankruptcy before the TARP vote.9 We expect that legislators with a greater proportion of stocks held in “failed” companies were more likely to vote in favor of the financial bailout. This variable is a particularly good measure of legislator exposure to the effect of this bill as those owning these stocks almost certainly noticed the reduction of their holdings to almost zero in the leadup to the TARP vote.

We once again consider the legislators’ Total Equities and expect that larger absolute holdings in equities

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9 The companies which had “failed” or that had to restructure prior to the TARP roll-call votes were ABN AMRO Group, Northern Rock, Bear Stearns, Catholic Building Society, Countrywide Financial, Alliance & Leicester, Roskilde Bank, Fannie Mae/Freddie Mac, Derbyshire Building Society, Cheshire Building Society, Merrill Lynch, American International Group, Lehman Brothers, HBOS, Washington Mutual, Lehman Brothers, Bradford and Bingley, Fortis, Dexia, and Wachovia. This variable is dollar value of these “failed” stocks divided by the dollar value of all stocks.
will be associated with greater likelihood of supporting the creation of TARP because legislators with more of their investments in equities stood to gain more from a massive injection of government funds into the financial sector.

In addition to risk aversion, the proportion of “failed” stocks, and the amount of assets held in equities, we account for the same independent variables unrelated to asset holdings as in Models 1 and 2. We include the legislator’s *Party* and *Ideology*, although our expectations based on partisanship and ideology are two-directional. On one hand, Democrats and liberals are generally in favor of increased government involvement in the private sector, so we might anticipate them to be more likely to support TARP. On the other hand, Democrats and liberals may not have wanted to “bail out” this particularly industry, and many Republicans may have been willing to vote for TARP due to the GOP’s ties to the financial industry. We anticipate that higher *Median Income* in the legislator’s district will be associated with greater likelihood of having supported the creation of TARP. The *Democratic Presidential Vote Share* variable may be positively or negatively correlated with the TARP vote as the Republican president supported TARP though many Democrats also favored the bill. Last, we control for the legislators’ *Total Assets* and expect that legislators with more wealth were more likely to vote for the Emergency Economic Stabilization Act.

**Model 4**: The fourth model is exactly the same as the third model except that the dependent variable is the second roll call vote for the Emergency Economic Stabilization Act of 2008, which *passed* the House on October 3, 2008, with votes coded 1 for yes, 0 for no. Our expectations for all independent variables remain the same as in Model 3.

**Model 5**: The fifth and final model considers the bailout of the American automotive industry. The dependent variable is the legislator’s vote on the Auto Industry Financing and Restructuring Act of 2008 coded 1 for yea and 0 for no. We expect that higher values of legislator *Risk Aversion* will be associated with diminished likelihood of voting for the auto bailout. We also consider legislators’ ownership interests in the two publicly-traded automotive manufacturers who received assistance as part of the auto bailout, General Motors and Ford.\(^{10}\) We measure the proportion of legislators’ stock assets that are held in *GM Stock* and *Ford Stock* respectively, and we expect higher proportions of GM and Ford stock to be associated with a greater likelihood of voting in favor of

\(^{10}\) Chrysler also received benefits from the auto bailout, but no member of Congress had shareholder interests in this company in 2008.
the Act because legislators with GM and Ford stock have a vested personal interest in the continued existence of the two companies in question. Likewise, we again consider the legislators' Total Equities and expect that legislators who hold a higher dollar amount of their assets in equities will support the auto bailout. Those with higher amounts invested in equities may view stock price declines that could result without government intervention in this industry as a warning sign that could spill over to the broader stock market.

We control for the legislators' Party, Ideology, and Total Assets, and expect that liberals, Democrats, and members with more total wealth were more likely to support the auto bailout due to Democrats' and liberals preferences for government involvement in the economy. We lastly control for district characteristics. We anticipate that lower Median Income in the district may be associated with support for the bill given the blue-collar identification of the American auto industry. On the other hand, higher-income individuals are more likely to be exposed to the stock market or even own these companies’ stocks, so constituency income may be positively correlated with the auto bailout vote. We expect Democratic Presidential Vote Share to be associated with legislators more likely to support the Act because of the blue-collar nature of the auto industry and Democratic constituents’ preferences for economic intervention.

Results: Legislator Private Financial Interests and Risk Preferences Often Associated with Roll Calls

The results of the five logits appear, respectively, in Tables 1 through 5. We find general support for our hypotheses regarding legislators' risk profiles and equity interests, although some qualifications are necessary. We find strong support for our hypotheses that members of Congress who own particular stock in companies that are directly subject to regulative or deregulative congressional actions vote in keeping with their personal financial interests, suggesting that legislators' behavior is conditioned by a number of factors outside the advancement of political or ideological goals and representation of their constituents' preferences. In addition, in three of the five models we find support for the risk aversion hypothesis; and in three of the five models we find support for the equity interests hypothesis that overall stock ownership was associated with these policy decisions.

Financial deregulation in the late 1990s: Private Interests and Risk Aversion Influence Public Policy Choices

The results in Table 1 indicate that more risk-averse members of Congress were significantly less likely to support passage of the Gramm-Biley-Leach Act, which provided for the full-scale integration of commercial banks, investment banks, and insurance companies. This supports our risk aversion hypothesis that legislators whose
personal financial preferences reflect aversion to risk are less likely to be supportive of the risks associated with decreased regulation and oversight of the financial sector. Furthermore, members of Congress who owned stock in Citi or Travelers – the two companies whose merger effectively created an agenda for banking deregulation in the 106th Congress (1999-2000) – were significantly more likely to vote in favor of Gramm-Billey-Leach, even more directly suggesting that legislators take into account their personal financial interests when considering final passage votes on matters of financial deregulation (supporting the individual stock interests hypothesis). We did not find an association between Total equities and legislator votes for Gramm-Billey-Leach.

While as expected, conservatives were significantly more supportive of Gramm-Billey-Leach than were liberals, surprisingly it was Democrats who, all else equal, were more likely than Republicans to vote in favor of passing the Act. This reflects our earlier contention that legislators' preferences regarding matters pertaining to financial regulation and deregulation escape intuitive partisan classifications and instead suggests a lingering heterogeneity of preferences across the American congressional parties with regard to regulation of the financial sector.

TABLES 1 AND 2 ABOUT HERE

The results in Table 2 regarding passage of the Commodity Futures Modernization Act of 2000 are somewhat less conclusive. Neither risk aversion nor ownership of stock in the largest American banks are significantly associated with an increased likelihood to vote for passage of the CFMA (both the Risk aversion and Big Banks variables are statistically insignificant). The Total equities variable was statistically significant and, as expected, positively associated with the CFMA vote. The mixed evidence for our hypotheses in this model is perhaps not surprising given the context of this vote. There is a complication in analyzing the passage of the CFMA due to its inclusion in an appropriations package because it becomes significantly more difficult to consider individual legislators' preferences regarding the CFMA as opposed to their preferences regarding the other provisions of the appropriations bill. The factors with the largest effects in Model 2 significantly associated with votes to pass the appropriations bill containing the CFMA, however, were legislators' party – as the minority party (Democrats) were significantly less likely to support passage of the bill – and ideology – as conservatives were significantly less likely to support passage of the bill.

Legislators’ personal finances and the bailouts during the 2008 financial crisis
The results presented in Tables 3 and 4 analyze both votes for TARP in the wake of the 2008 financial crisis, and in general suggest that risk-accepting legislators were more likely to support the massive bailout of the U.S. financial sector presented by the Emergency Economic Stabilization Act of 2008 and the creation of TARP. The same types of legislators who exposed the national economy to systemic risk by deregulating financial institutions also authorized the Treasury department to spend billions of dollars to rescue these financial institutions – and their own asset portfolios.

This result holds across both the failed TARP vote on September 29 and the second, successful vote on October 3 after the continued decline of American securities indices (see the Risk aversion variable, which is negative and significant, in Tables 3 and 4). This suggests that members of Congress who were aggressively exposed to risky investments via their personal financial asset allocations due to their more frequent holdings in assets like equities and real estate probably considered the stability and value of their own asset portfolio in deciding whether to pass the Emergency Economic Stabilization Act of 2008. It is likely they noticed their own portfolio decline substantially over the course of 2008 leading up to this vote. Legislators whose assets were allocated in a more risk-averse manner, however, were less personally exposed to negative fluctuations in the financial markets leading up to the vote and were more likely to reject the creation of TARP and the subsequent bailout of the financial sector.

Furthermore, the results in both Tables 3 and 4 indicate that representatives who owned higher proportions of stock in “failed” financial companies were significantly more likely to support the creation of TARP, perhaps based on their expectation that the proposed government assumption of specific assets and equity could counteract or mitigate the depreciation in their investments which they had already incurred (see the Failed stocks variable, which is statistically significant and positive). In what may be a reflection of both the difficulty of predicting votes on financial regulation based on standard political variables as well as the turbulent political climate surrounding the 2008 financial crisis, neither legislator party nor ideology are significantly associated with a greater likelihood of supporting the creation of TARP in either Table 3 or 4. Higher median household income in the districts, however, was associated with a greater tendency to support the Act and the creation of TARP, suggesting that legislators did take into account their constituency preferences when considering whether to support this massive
There are a few notable differences between the results of Model 3 and the results of Model 4 which might above all reflect circumstantial differences between the viability of the financial sector on September 29 versus October 3, 2008. On the roll-call vote taking place on September 29, 2008, legislators whose assets included high levels of equity investments were significantly more likely to support the creation of TARP (see the Total equities variable in Table 3). However, as shown in Table 4, the Total equities variable was not significantly associated with the vote to pass the Emergency Economic Stabilization Act on October 3, less than a week later. During the intervening days between the two TARP votes, the Dow dropped more than it had since the Great Depression. As the financial sector dramatically worsened, it is possible that the Total equities variable ceased to be associated with a greater likelihood of voting for the financial bailout because concern for the stability and wellbeing of the American financial industry spread from those members of Congress significantly exposed to the stock market to other legislators who were not.

The results in Table 5 suggest that once again, personal financial interests played a critical role in determining how legislators voted on the Auto Industry Financing and Restructuring Act of 2008. While our measure of risk aversion was not significantly associated with voting regarding the auto bailout, members of Congress who owned stock in General Motors and Ford - the two publicly-traded American automotive manufacturers that would be “bailed out” - were significantly more likely to vote in favor of passing the Act. In other words, legislators' decision making regarding large-scale regulation and intervention in the economy is significantly associated with the legislators' ownership interests in the very companies subject to regulation, intervention, and potentially rescue. Members of Congress who held a large amount in equities were also significantly more likely to vote in favor of the auto bailout, suggesting that some degree of risk acceptance in asset allocation was associated with willingness to extend funds to the automotive industry.

Ideology played a role in legislators' decision making regarding the auto bailout along two lines. First, more conservative members of Congress were significantly less likely than liberal members to support the auto bailout, which supports the expectation regarding conservatives' opposition to government intervention in the economy. Likewise, members of Congress from more Democratic districts were significantly more likely to support the auto bailout than members from more Republican districts, which may reflect both underlying Democratic preferences...
regarding government aid for the auto industry as well as the geographical reality that many components of the largest American auto makers are located in historically Democratic or Democratic-leaning areas in the Rust Belt. Lastly, legislators with less total assets overall were less likely to support the auto bailout.

**Summarizing the results**

Having examined five of the most meaningful congressional votes related to financial regulation and government intervention in the economy, it is useful to calculate the predicted probabilities while varying our key variables of interest. As noted earlier, support for the individual stock interests hypothesis was found when examining four of the five models. The risk aversion variable was a significant predictor in three of the five models, supporting the risk aversion hypothesis. However, to estimate the magnitude of these effects, it is useful to calculate predicted probabilities from the logit models.

Table 6 summarizes the change in predicted probabilities based on all five models displayed in Tables 1 through 5 when we varied the variables included in each model to test the individual stock interests hypothesis while holding other variables at their means. The variables of interest that were varied were *Citi or Travelers stock* in model 1 (examining the Financial Services Modernization Act), *Big Bank stock* in model 2 (Commodity Futures Modernization Act), *Failed Financial Stocks* in models 3 and 4, and *GM stock and Ford stock* in Model 5. We compute the predicted probabilities when a legislator owns no stock in these companies and compare it to the predicted probabilities when a legislator has holdings in these companies one standard deviation above the mean proportion of holdings for all legislators. These predicted values are then subtracted to obtain a predicted

**TABLE 6 ABOUT HERE**

As can be seen in Table 6, the magnitudes of the effects of holding stocks in companies likely to be affected by the pending legislation are fairly large. For the Financial Services Modernization Act, if a legislator owned Citi or Travelers stock in a proportion one standard deviation greater than the mean legislator, then s/he was 5 percentage points more likely to vote for the bill. In the case of both TARP votes, having owned stock in banks that failed or that were significantly restructured (such as Bank of America and Merrill Lynch merging) led to a 5 percentage point increase in voting for the bills. In the case of the auto bailout, owning GM stock one standard deviation greater than the mean legislator led to a 2 percentage point increase in the likelihood of voting for the bill and owning Ford stock one standard deviation above the mean led to a 4 percentage point increase in the likelihood of
voting for the bill. The magnitudes suggest that personal ownership by legislators in specific equities affected by the underlying legislation has a meaningful impact on their decisions to support the legislation. There is a clear relationship between voting for a bill that will help a firm and owning that firm’s stock.

TABLE 7 ABOUT HERE

In Table 7, we also examined changes in predicted probabilities based on all five models, but this time we vary the Risk aversion variable. Recall that this variable has a range of 1 to 3 where holding a large proportion of risky assets, such as equities and real estate, would lead to a legislator having a score near 1; and holding a large proportion of cash assets would lead to a legislator having a score near 3. We examine the predicted probabilities when a legislator is completely invested in risky assets (a score of 1) and compare it to the predicted probabilities when a legislator is completely invested in low-risk, cash assets (a score of 3), while holding all other variables at their means.

While the risk aversion variable was not a significant predictor of votes for the Financial Services Modernization Act and the auto bailout vote, it did have a statistically significant effect for the other three roll calls. The magnitude of the effect in each of these roll calls was particularly large. A very risk-tolerant legislator was 9 percentage points more likely to vote for the Financial Services Modernization Act than a very risk-averse legislator. With an even larger difference in magnitude, a very risk-accepting legislator was 15 percentage points more likely to favor government intervention through TARP (roll call 1) than a risk-averse legislator. The gap was 18 percentage points for TARP (roll call 2). Very interestingly, a legislator’s personal risk aversion or risk tolerance had a substantively meaningful effect on making legislators more likely to vote for these three significant pieces of legislation.

Conclusion

In general, the results indicate that decision making in Congress regarding both regulation and deregulation of various sectors of the financial industry and economy depends on much more than the traditional political determinants of legislator behavior. Personal financial involvement, risk orientation, and investment in the industries subject to regulation, oversight, and intervention tend to play a larger role than traditional factors such as party, ideology, or district characteristics. These results, then, suggest important normative considerations of how legislators’ roles as representatives are impacted by their personal preferences. On these high-profile votes in the
leadup to and during the financial crisis, legislators relied on their private interests to make decision. This is potentially normatively worrisome for those interested collective decision-making in the public interest.

Our argument about risk is novel, and the findings generally support our argument across the majority of the five roll calls examined. Financial risk aversion in legislators’ investment allocation strategies matters for congressional decision making. The type of risk-accepting legislators who favored deregulation of the banking system in 1999 during the financial bubble were, somewhat ironically, more likely to support the massive bailout of the U.S. financial sector presented by the Emergency Economic Stabilization Act of 2008 and the creation of TARP. Those risk-accepting legislators were willing to give power to the market and also intervene in the economy, while those risk-averse legislators were less willing to do so.
Bibliography


### Table 1: Financial Services Modernization Act of 1999 (Gramm-Bliley-Leach Act)

*Dependent Variable: House Roll Call Vote on the Conference Report of the Financial Services Modernization Act of 1999 on November 4, 1999 (1 for yes vote, 0 for no vote)*

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Coefficient (Robust standard error)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Aversion</td>
<td>-0.566 (0.268)**</td>
</tr>
<tr>
<td>Citi or Travelers Stock</td>
<td>16.729 (12.525)*</td>
</tr>
<tr>
<td>Total Equities</td>
<td>0.005 (0.008)</td>
</tr>
<tr>
<td>Party</td>
<td>2.287 (1.443)*</td>
</tr>
<tr>
<td>Ideology</td>
<td>5.173 (2.197)**</td>
</tr>
<tr>
<td>District Median Income</td>
<td>-0.015 (0.016)</td>
</tr>
<tr>
<td>Democratic Pres. Vote Share</td>
<td>-0.023 (0.018)</td>
</tr>
<tr>
<td>Total Assets</td>
<td>-0.000 (0.003)</td>
</tr>
<tr>
<td>Constant</td>
<td>3.630 (1.710)**</td>
</tr>
<tr>
<td>Pseudo R²</td>
<td>0.25</td>
</tr>
<tr>
<td>N</td>
<td>397</td>
</tr>
</tbody>
</table>

*p ≤ 0.10; **p ≤ 0.05; ***p ≤ 0.01 (one-tailed tests)
<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Coefficient (Robust standard error)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Aversion</td>
<td>0.090 (0.294)</td>
</tr>
<tr>
<td>Big Banks</td>
<td>1.477 (1.316)</td>
</tr>
<tr>
<td>Total Equities</td>
<td>0.009 (0.006)*</td>
</tr>
<tr>
<td>Party</td>
<td>-5.326 (1.156)**</td>
</tr>
<tr>
<td>Ideology</td>
<td>-8.676 (1.682)**</td>
</tr>
<tr>
<td>District Median Income</td>
<td>-0.301 (0.017)</td>
</tr>
<tr>
<td>Democratic Pres. Vote Share</td>
<td>0.007 (0.022)</td>
</tr>
<tr>
<td>Total Assets</td>
<td>-0.002 (0.003)</td>
</tr>
<tr>
<td>Constant</td>
<td>5.389 (1.767)**</td>
</tr>
<tr>
<td>Pseudo R²</td>
<td>0.3</td>
</tr>
<tr>
<td>N</td>
<td>334</td>
</tr>
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</table>

*p ≤ 0.10; **p ≤ 0.01 (one-tailed tests)
**Table 3: Emergency Economic Stabilization Act of 2008 (TARP), First Vote**

*Dependent Variable: First House Roll Call Vote on the Emergency Economic Stabilization Act of 2008 on September 29, 2008 (1 for yes vote, 0 for no vote)*

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Coefficient (Robust standard error)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Aversion</td>
<td>-0.308 (0.192)*</td>
</tr>
<tr>
<td>Failed Stocks</td>
<td>1.500 (0.937)*</td>
</tr>
<tr>
<td>Total Equities</td>
<td>0.008 (0.006)*</td>
</tr>
<tr>
<td>Party</td>
<td>-0.027 (0.769)</td>
</tr>
<tr>
<td>Ideology</td>
<td>-1.051 (0.856)</td>
</tr>
<tr>
<td>District Median Income</td>
<td>0.015 (0.007)**</td>
</tr>
<tr>
<td>Democratic Pres. Vote Share</td>
<td>0.007 (0.012)</td>
</tr>
<tr>
<td>Total Assets</td>
<td>-0.006 (0.004)*</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.778 (1.002)</td>
</tr>
<tr>
<td>Pseudo-R^2</td>
<td>0.073</td>
</tr>
<tr>
<td>N</td>
<td>417</td>
</tr>
</tbody>
</table>

*p ≤ 0.10; **p ≤ 0.05 (all one-tailed tests except two-tailed test for Party and Ideology)
### Table 4: Emergency Economic Stabilization Act of 2008 (TARP), Second Vote

*Dependent Variable: Second House Roll Call Vote on the Emergency Economic Stabilization Act of 2008 on October 3, 2008 (1 for yes vote, 0 for no vote)*

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Coefficient (Robust standard error)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Aversion</td>
<td>-0.363 (0.196) **</td>
</tr>
<tr>
<td>Failed Stocks</td>
<td>1.390 (0.989)*</td>
</tr>
<tr>
<td>Total Equities</td>
<td>0.007 (0.006)</td>
</tr>
<tr>
<td>Party</td>
<td>-0.362 (0.798)</td>
</tr>
<tr>
<td>Ideology</td>
<td>-1.195 (0.913)</td>
</tr>
<tr>
<td>District Median Income</td>
<td>0.014 (0.008)**</td>
</tr>
<tr>
<td>Democratic Pres. Vote Share</td>
<td>0.024 (0.136)**</td>
</tr>
<tr>
<td>Total Assets</td>
<td>-0.005 (0.004)</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.669 (1.030)</td>
</tr>
<tr>
<td>Pseudo-R²</td>
<td>0.094</td>
</tr>
<tr>
<td>N</td>
<td>418</td>
</tr>
</tbody>
</table>

* p ≤ 0.10; ** p ≤ 0.05 (all one-tailed tests except two-tailed test for Party and Ideology)
Table 5: Auto Industry Financing and Restructuring Act of 2008 (Auto Bailout)

Dependent Variable: House Roll Call Vote on the Auto Industry Financing and Restructuring Act of 2008 on December 10, 2008 (1 for yes vote, 0 for no vote)

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Coefficient (Robust standard error)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Aversion</td>
<td>0.062 (0.303)</td>
</tr>
<tr>
<td>GM Stock</td>
<td>6.585 (3.976)**</td>
</tr>
<tr>
<td>Ford Stock</td>
<td>11.299 (4.728)****</td>
</tr>
<tr>
<td>Total Equities</td>
<td>0.070 (0.019)****</td>
</tr>
<tr>
<td>Party</td>
<td>0.807 (1.477)</td>
</tr>
<tr>
<td>Ideology</td>
<td>-2.485 (1.865)*</td>
</tr>
<tr>
<td>District Median Income</td>
<td>-0.000 (0.017)</td>
</tr>
<tr>
<td>Democratic Pres. Vote Share</td>
<td>0.091 (0.026)****</td>
</tr>
<tr>
<td>Total Assets</td>
<td>-0.054 (0.015)****</td>
</tr>
<tr>
<td>Constant</td>
<td>-3.638 (1.918)**</td>
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<tr>
<td>Pseudo-R²</td>
<td>0.559</td>
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<td>N</td>
<td>393</td>
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</table>

*p ≤ 0.10; **p ≤ 0.05; ***p ≤ 0.01 (one-tailed tests)
Table 6: Legislator Ownership of Individual Stocks Affected by Roll Call and Increased Propensity to Vote for Roll Call

<table>
<thead>
<tr>
<th>Roll-call Vote</th>
<th>Independent Variable Measuring Individual Stock Interests Hypothesis</th>
<th>%-point change in likelihood of voting yea on bill between 0% stock holdings and stock holdings 1 standard deviation above mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services Modernization Act</td>
<td>Citi or Travelers Stock</td>
<td>5% increase</td>
</tr>
<tr>
<td>Commodity Futures Modernization Act</td>
<td>Big Bank Stock</td>
<td>variable not significant</td>
</tr>
<tr>
<td>TARP Vote #1 (did not pass)</td>
<td>Failed Financial Stocks</td>
<td>5% increase</td>
</tr>
<tr>
<td>TARP Vote #2 (passed)</td>
<td>Failed Financial Stocks</td>
<td>5% increase</td>
</tr>
<tr>
<td>Auto Bailout</td>
<td>GM Stock</td>
<td>2% increase</td>
</tr>
<tr>
<td>Auto Bailout</td>
<td>Ford Stock</td>
<td>4% increase</td>
</tr>
</tbody>
</table>

Note: These are predicted probabilities from the models displayed in Tables 1 through 5 varying the variable listed in the second column while holding all other variables at their means.
Table 7: Legislator Risk Aversion v. Legislator Risk Tolerance and the Increased Probability of Supporting Financial Deregulation of Government Intervention to Bolster the Markets

<table>
<thead>
<tr>
<th>Roll-call Vote</th>
<th>%-point change in likelihood of voting yea when legislator is very risk averse (no risky assets) and very risk-tolerant (all risky assets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services Modernization Act</td>
<td>9% increase</td>
</tr>
<tr>
<td>Commodity Futures Modernization Act</td>
<td>variable not significant</td>
</tr>
<tr>
<td>TARP Vote #1 (did not pass)</td>
<td>15% increase</td>
</tr>
<tr>
<td>TARP Vote #2 (passed)</td>
<td>18% increase</td>
</tr>
<tr>
<td>Auto Bailout</td>
<td>variable not significant</td>
</tr>
</tbody>
</table>

Note: These are predicted probabilities from the models displayed in Tables 1 through 5 varying the value of the Legislator Risk Aversion variable while holding all other variables at their means.