Discussion of "Winning Connections?" By D. Igan, T. Lambert, W. Wagner, and E. Zhang

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April 2018

Introduction

- Authors study how lobbying affects the resolution of failed banks
- Banks that lobby the FDIC have a higher probability of winning an auction for a failed bank assets
- Performance of banks post acquisition is lower for firms that lobbied the FDIC than those that did not

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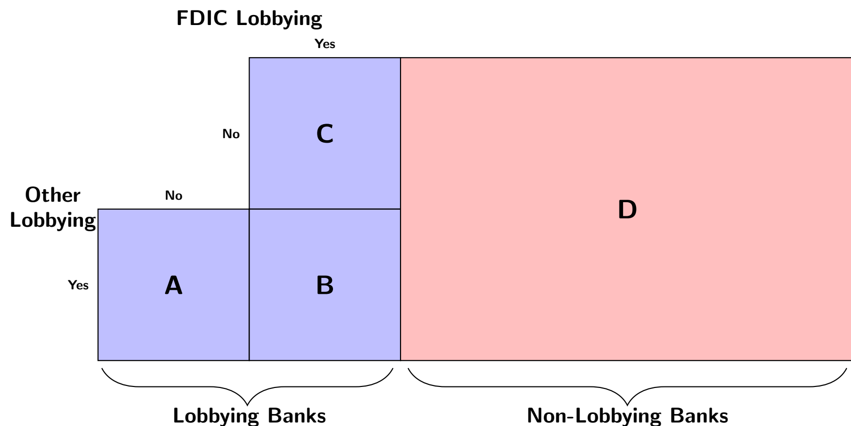
- Authors study how lobbying affects the resolution of failed banks
- Banks that lobby the FDIC have a higher probability of winning an auction for a failed bank assets
- Performance of banks post acquisition is lower for firms that lobbied the FDIC than those that did not
- Paper is timely, policy-relevant, and important
- Discussion will touch on their empirical design and some extensions that I think can make the paper (even) better

Empirical Setting

- Authors start by comparing outcomes of lobbying firms and non-lobbying firms
- Obvious problem (that the authors clearly acknowledge) is that these firms are likely different for unobservable reasons
- Their solution is to use different "types" of lobbying to instrument for the reason why firms lobby for a particular deal

Empirical strategy Graphically



IV approach

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- Engaging in political activity entails significant fixed costs, (setting up a regulatory affairs division of your firm, devoting time into selecting good lobbyists, etc.)
- Those firms that have paid the fixed cost to engage in lobbying will ex-post find it cheaper to lobby in general

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- Those firms that have paid the fixed cost to engage in lobbying will ex-post find it cheaper to lobby in general
- Use variation in *lobbying expenses unrelated to FDIC* to predict lobbying related to FDIC (**Instrument Relevance**)
- Such variation should only affect bidding outcomes through lobbying about the bid (**Instrument Exclusion**)

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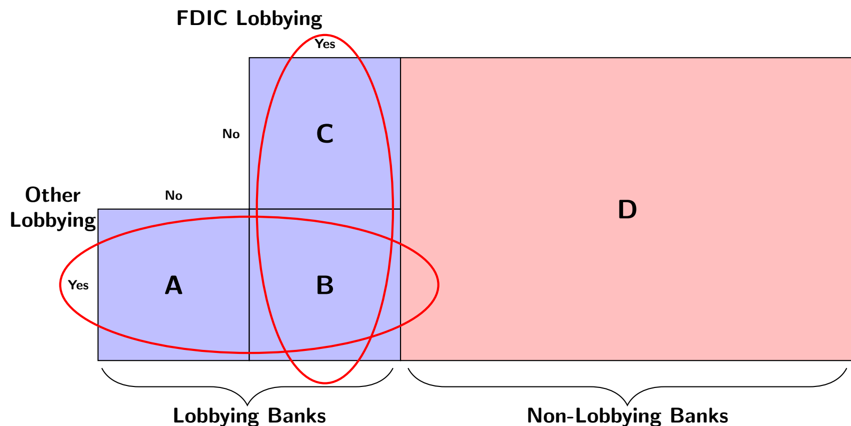

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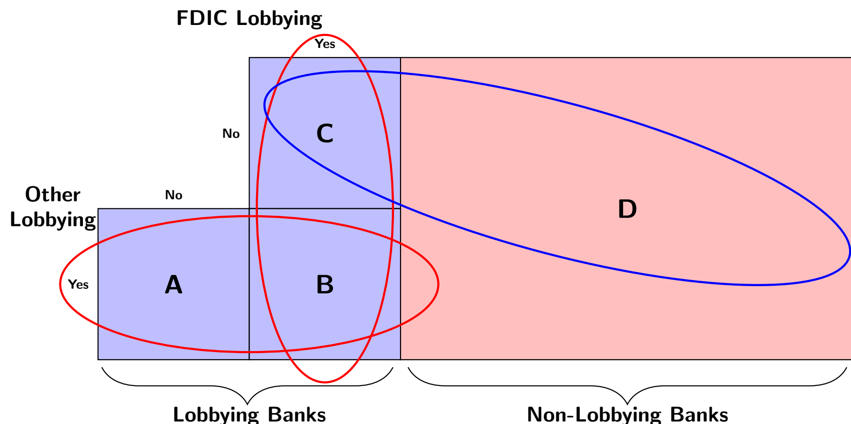

- Authors want to compare firms in the red ellipses (A,B,C)
- Lobbying = 0 also pools firms in the blue ellipse (C and D)

Firm types

- To be consistent with their identifying assumptions, the authors at least restrict their sample to firms that have lobbied (or even better those that have previously lobbied at least once and paid the fixed costs to lobbying)
- However, how similar are the strategies of firms that engage in broad based lobbying or other targeted types of lobbying?
  - Lobbying about regulation like Dodd-Frank
  - Lobbying about TARP (Igan, Mishra, Tressel (2015), Duchin, Sosurya (2012))
- Are these firms choosing different strategies because of other unobserved differences?

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- 55 commercial banks had positive lobbying expenditures, collectively $40 million
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- 55 commercial banks had positive lobbying expenditures, collectively $40 million
- Ten largest lobbying firms account for $\sim$69% of this expense
- These figures suggest that there is a large concentration of lobbying activity among certain firms, making potential differences between firms important to consider

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- Do lobbying firms bid for different types of failed banks?
- Important to understand the ROA and efficiency results
- The selection question is independently interesting as most lobbying studies look at firm level outcomes
  - Innovation (Kim (2015)
  - Profitability (Borisov, Gupta, Goldman (2015)
- This is lobbying about *project level* decisions
- Understanding the selection of which types of banks bid for which types of distressed assets is interesting in its own right

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- Examining these possibilities might complement the current discussion of welfare.

Conclusion

- Authors have written a timely, policy-relevant and academically-important paper
- Discussion of normative implications is well done and thought provoking
- I wish the authors luck going forward