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Does duration of political control matter? Interstate differences in branch-banking laws

THOMAS KLIER MICHAEL McPHERSON*

Department of Economics, Michigan State University, East Lansing, MI 48824-1038

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1. Motivation

How important is the influence of a particular party in shaping the legislative landscape of a state (or country) over time? One would expect the length of time a particular party has been in control as well as legislators' party affiliations to be major influences on legislative output. An extensive literature uses economic analysis to examine the political and legislative process (see, for example, Danielsen and Rubin, 1977; Kau and Rubin, 1978; Coughlin, 1983; Kalt and Zupan, 1984; Crain, Shughart and Tollison, 1988; Smith, 1982; and Benson and Engen, 1988). Often these studies have attempted to account for the various determinants of a legislator's vote on a particular bill; but in dealing with this question political dominance by one party over a number of years has not been incorporated in empirical studies. This paper studies particularly this aspect of the political process and considers whether the process is best modeled using a variable involving long-term dominance of the lawmaking apparatus by one party. As an example, differences across states in branch banking laws are examined. There has been no previous analysis of determinants of this legislation in a public choice framework.¹ We test various specifications of political influence. Section 2 discusses the literature on modeling party influence in determining legislative outcomes and presents a theory that incorporates long-term political control. We discuss the data and variables used in our approach, the specification of the model and the results in Section 3. There we specifically compare the explanatory power of our 'political influence' variable to that of the approach previously used in the empirical literature, or the literature generally. Section 4 summarizes our conclusions.

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2. A theory of control

In two different ways, earlier studies are insufficient in representing political influence: they fail to capture the relative power of each party represented by the actual - or relative - size of its majority and/or they ignore the effect of duration on the influence of a particular legislature or legislator. For example, Stigler's (1972) influence function uses as its only argument the relative size of a particular party's majority, but this variable is defined solely at a specific point in time.

We propose to augment Stigler's influence function with the duration of a particular party's control. Referring to Stigler's 1972 paper, in which he discusses similarities between economic and political competition, the importance of duration can be motivated analogously by the incumbent's advantage over entrants in a specific industry. One might argue that experience and knowledge help to find ways of avoiding losing out to entrants. We expect duration of power to make a difference in public choice questions in two ways: Firstly, it takes time for laws to be passed; only after some time can one set up and operate 'political machinery'. Therefore a party that has been in control for some time will be perceived as having a better ability to influence legislative output. Smith (1982: 121) reasons that "a party which maintains its majority status over time is expected to have more control over legislative output than a party which attains majority status only part of the time." On the same issue, Craig, Leavens and Tollison (1986) refer to the "fact" that power and seniority have a natural affinity. Cast in terms of an analysis of the market for legislation, the duration of political dominance by one party should lead to an increase in the demand for legislation by a particular set of interest groups, because they would perceive whoever is in control to be better able to satisfy implicit contracts.²

Secondly, as legislators build up tenure, they may become more susceptible to the pressures of various interest groups. Following the game theoretical approach of Axelrod (1984), who posits that under certain conditions cooperation between players increases with prolonged contact, Broder and Herren (1989: 23) use a repeated game setting to examine the relationship of utilities and public regulatory commissions over time. They report that "the degree of seniority of each commissioner and the percentage of senior members on a commission [are] directly related to rate increases." In other words, we expect an increase in the duration of power by a given political party to lead to an increase in the sensitivity of that party to lobbying.³

The novel approach of this paper not only introduces a duration variable, but it also analyzes an empirical question in terms of a stock-stock model: both explanatory variables and the dependent variable are defined in terms of stocks. What role does this leave for party affiliation? Obviously, the agenda and interests of the party in control will heavily affect the tenor of the legislation enacted. But no matter what party is in a position of dominance, we expect the relationship between number of years of control and degree of accessibility to interest groups to be the same.

3. Data, specification and estimates

We test this theory using data that explain the structure of state laws on branchbanking restrictions as of 1984. Each state determines the extent of branch banking within its borders. We define our dependent variable as a dummy, BB. This variable takes a value of unity when a state allows branch banking anywhere within the state, and a value of zero when there are some restrictions on branching in a state.

Economic theory suggests several factors that should affect the structure of state banking laws. If there exist economies of scale in banking - and recent technological developments (capital-intensive investment in automated teller systems, electronic banking etc.) indicate that there are (see, for example, Benston, Hanweck and Humphrey, 1982) - we expect them to lead to a breakdown of existing banking restrictions. Three different variables were used to capture these effects. Each is expected to have a positive effect on the dependent variable: (1) POPD, population density measured in people per square mile in 1983. The more densely populated states should offer more opportunities for realizing economies of scale by adding branches. (2) POPG, the percentage population growth rate from 1950-1980. This variable should capture the longer-term effects of changes in population. Laws do not change overnight, but one would expect strong pressure for a switch to unrestricted branch banking in states that exhibit a continued high growth rate. (3) PCI, per capita income in 1983, measured in 1972 dollars. We expect this variable to capture income effects in the demand for banking services. In states that have higher per-capita income there is presumably a larger market for banking services, *i.e.*, a greater potential for economies of scale.

Like per-capita income, differences in industrial development might also explain the demand for statewide bank coverage. We created the proxy PME, the percentage of total employees on manufacturing payrolls, measured as a five-year average (1975–1979), to reflect this effect. A relatively high level of nonfarm income or employment in manufacturing would lead to greater demand for more sophisticated banking services. We thus assume that this variable is associated with economies of scale and expect a positive coefficient.

So far, we have included variables that represent incentives of banks and related industries to lobby in favor of changes toward unrestricted branch banking. We still have to take account of the constellation of political influence

	Equation							
Explanatory variable	(1)	(2)	(3)	(4)	(2)	(9)	(7) ^a	
PCI	0005	0005	0005	0010	- 0000	0010*	0010*	1
	(.0005)	(.0005)	(.0005)	(9000)	(9000)	(9000)	(9000)	
	(0002)	(0002)	(0002)	(0003)	(0003)	(0004)	(0004)	
POPD	.0065**	.0058**	**9900'	**0000	.0073**	.0074**	.0074**	
	(.0032)	(.0027)	(.0033)	(.0030)	(.0029)	(.0030)	(.0030)	
	(.0023)	(.0021)	(.0023)	(.0025)	(.0026)	(.0026)	(.0026)	
POPG	.0197**	.0214**	.0193**	.0268**	.0276**	.0281**	.0280**	
	(.0080)	(.0083)	(.0085)	(2600.)	(:0003)	(2000)	(9600.)	
	(.0070)	(.0076)	(.0069)	(2600.)	(8600.)	(.0010)	(.0010)	
PME	0042	0005	0052	0090	0040	0061	0074	
	(.0348)	(.0342)	(.0361)	(.0333)	(.0350)	(.0345)	(0339)	
	(0015)	(0002)	(0019)	(0032)	(0014)	(0022)	(0026)	
НЧ	7619		8683					
	(.5384)		(1.0679)					
	(2709)		(3087)					
PS		5630	1137					
		(.4918)	(.9815)					
		(2002)	(0404)					
PDD				0437**		0190	0230**	
				(.0213)		(.0327)	(.0134)	
				(0155)		(0067)	(0107)	

Table 1. Comparison of point-in-time dummies and duration variables

	Equation						
Explanatory variable	(1)	(2)	(3)	(4)	(5)	(9)	(7) ^a
PDR					.0693** (.0313) (.0246)	.0471 (.0487) (.0167)	.0230** (.0134) (.0107)
Log-likelihood R-squared analogue	-22.44 .35	-22.80 .34	-22.43 .35	-21.07 .39	-20.76 -20.76 .40	-20.59 .40	-20.65 .40
 * significant at the 90% Values under each coefficient 	level; ** significa	int at the 95% leve dard error and the	el. 1. partial derivativ	e evaluated at the	mean.		

^a The effect of years of domination by Democrats is constrained to have the opposite sign but the same magnitude as years of domination by Republicans.

Table 1. Continued

in each of the states of the union. In order to do this, we define the following novel variables:

PDD (PDR) = Total number of years in which Democrats (Republicans) controlled the governorship and both houses of the state legislature from 1949-1983.

Consistent with our theory of control, this 'political influence' variable is designed to capture both the duration of power and the party affiliation effects. In order to take care of the latter, we define a separate influence variable for each of the two major parties. We expect both variables to have significant effects on the probability of unlimited branching, because the longer the control by one party, the more likely politicians are to be lobbied successfully and the more likely they are to control legislative output. For PDR in particular we expect the coefficient to be positive, reflecting the "probusiness" attitude of the Republican party.

We also wish to test how the importance of the duration effect captured by PDD and PDR compares to the simple point-in-time approach previously used in the literature. To do this we created two additional pairs of variables:

PS (PH)	= A dummy variable equalling one if the majority of the state
	Senate (House of Representatives) is held by the Democratic
	party in 1983 and zero otherwise.
PDS (PDH)) = Actual percentage of Democrats in the state Senate (House
	of Representatives) in August 1983.

Each pair of these variables represents one form of the the point-in-time approach to representing political power and serves as a reference point for our analysis.

We estimate binomial probits of BB on the four control variables and various combinations of the political variables. We discuss the results in two steps. First, we compare the point-in-time dummy variables to the duration variables. Table 1 lists the coefficients and the log-likelihood values for different combinations of the political variables. Below each coefficient we report the standard error and the partial derivative evaluated at the mean, respectively. The chi-square tests show that the point-in-time dummy variables neither singly nor jointly add to the explanatory power of the basic model.⁴ These results are intuitively appealing and confirm the discussion in Section 2.

In addition to the chi-square tests, Table 1 shows that of the political variables only the two duration variables are individually significant. It also shows that the length of control has different effects depending on which party is in power. The negative coefficient for PDD indicates that, other things equal, dominance by Democrats makes liberal branching laws less likely. As expected, the PDR coefficient is positive.

The coefficients of the duration variables both become insignificant if they are included at the same time. This is not surprising, since they are highly negatively correlated (r = -.79). To test whether the effects of duration of control are equal but of opposite sign, the equation was reestimated with the four control variables and the coefficient on PDD constrained to equal the opposite of that on PDR (equation (7)). A chi-square test on this constraint yielded a value of 5.62. Republican and Democratic control produce equal effects in opposite directions.

Secondly, we compare the duration variable and the point-in-time variable, with the latter now based on the actual percentages of the Democratic party in both houses of the state legislature. This test is particularly interesting, because it shows how much the information on duration of power for a particular party adds to our ability to explain interstate differences in branching laws. The results are reported in Table 2. As expected, equations (8) and (9) show that even the more accurate variables at a specific point in time are not individually significant. Surprisingly, however, including both variables (equation (10)) adds significantly to explaining the dependent variable. This is particularly puzzling, since PDS and PDH are very highly correlated (r = -.9). One possible explanation is that the Democratic members in the House actually vote differently from the Democratic state senators. In our regression equation, the percentage of Democrats in the Senate variable has a positive coefficient, as does the Republican dominance variable in Table 2.⁵

From Table 1 we concluded that we could constrain the influence variables to have equal sized but opposite effects. Introducing this constraint together with both point-in-time percentage variables, we can see that both current and past information matter (equation (12)). Therefore, it is simply incorrect to ignore the duration of control in explaining different choices that states make on this issue (and perhaps on others too).

4. Conclusions

This study began by trying to explain differences in state branch-banking regulations. Introducing a variable that captures the effect of political dominance over time improves upon the commonly used measures of political dominance at a specific point in time. Even the direct comparison with the previously used percentage point-in-time variables shows that duration of political influence matters significantly. No matter which party is in control, the length of time it has been in control in a state influences political outcomes. We show that, in terms of which kind of legislation will be enacted, Democratic

	Equation				
Explanatory variable	(8)	(9)	(10)	(11)	(12) ^a
PCI	0008	0006	0008	0012*	0013*
	(.0006)	(.0005)	(.0006)	(.0007)	(.0007)
	(0003)	(0002)	(0003)	(0004)	(0005)
POPD	.0074**	.0060**	.0112**	.0117**	.0117*
	(.0032)	(.0030)	(.0048)	(.0047)	(.0042)
	(.0026)	(.0021)	(.0040)	(.0042)	(.0042)
POPG	.0230**	.0213**	.0213**	.0325**	.0325*
	(.0088)	(.0083)	(.0092)	(.0113)	(.0115)
	(.0082)	(.0076)	(.0076)	(.0115)	(.0115)
PME	0049	0042	0235	0255	0279
	(.0335)	(.0333)	(.0386)	(.0410)	(.0398)
	(0018)	(0015)	(0084)	(0091)	(0099)
PDH	0262*		1127**	0922*	0914*
	(.0142)		(.0480)	(.0505)	(.0504)
	(0093)		(0401)	(0328)	(0325)
PDS		0127	0820**	.1101**	.1105**
		(.0119)	(.0421)	(.0470)	(.0471)
		(0045)	(0292)	(.0391)	(.0393)
PDD				0472	0593*
				(.0474)	(.0300)
				(0168)	(0211)
PDR				.0756	.0593*
				(.0593)	(.0300)
				(.0269)	(.0211)
Log-likelihood	-21.54	-22.87	-19.24	-16.95	-17.00
R-squared analogue	.38	.34	.45	.51	.51

Table 2. Comparison of point-in-time percentage control variables and duration variables

* significant at the 90% level; ** significant at the 95% level.

Values under each coefficient are the standard error and the partial derivative evaluated at the mean.

^a The effect of years of domination by Democrats is constrained to have the opposite sign but the same magnitude as years of domination by Republicans.

and Republican control exert equal but opposite effects on legislative results. In other words, length of control matters independently of party affiliation, but party affiliation affects the nature of the outcome of the political process.

This new approach might be useful in different areas of the public choice literature. For example, it could be applied to analyzing how abortion laws vary across states. Other areas of economics might benefit as well from considering the duration of control. For example, the political business cycle literature, as in Alesina and Sachs (1988), Golden and Poterba (1980), Hibbs (1977) and Hawthorne and Jackson (1987), that examines patterns in macroeconomic policies and outcomes associated with the kind of government in power, might well be improved by including duration as well as direction of control. In general, any area of public economics in which the effects of political power are considered would benefit from considering the duration as well as the incidence of that power.

Notes

- 1. The literature on branch banking laws has either been institutionally oriented (Amel and Jacowski, 1989) or it has assessed the possible impact of branch banking policy changes on concentration and competition in the commercial banking industry (Savage and Solomon, 1980).
- 2. In the Benson and Engen (1988) framework, duration would enter as another shift parameter of the demand function for legislation. Crain, Shughart and Tollison (1988) examine explicit and implicit contracts in a legislative environment; however, they do not discuss the impact of duration on influence.
- 3. This increased sensitivity of legislators over time becomes manifest in a market framework as an increase in the elasticity of supply for legislation favorable to a particular set of interest groups.
- 4. The value of the log likelihood function for the basic model, using the controls only, is -23.47. The chi-square test value using PH singly is 2.05, whereas the value using only PS is 1.34. In the case in which both PS and PH are included, the value is 2.06.
- 5. In their models Benson and Engen (1988) and Smith (1982) constrain the effect of Democrats in both houses to be the same. Introducing this constraint into our equation (10) eliminates the puzzling fact of opposite signs for Democrats in the House and Senate. By doing this, though, they lose valuable information. In order to show this, we estimated equation (10) constraining Democrats in both houses to have effects of the same size but of *opposite* direction. A test of this constraint rejected it at the 90% level of confidence.

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