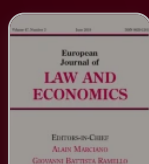


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Are bad times good news for the Securities and Exchange Commission?

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SEC's funding follows a regulative cycle: A weak stock market results in increased resources for the SEC. A strong stock market results in reduced resources. Our findings underline the downside of regulation as the regulative cycle amplifies the technical procyclicality inherent in regulation.

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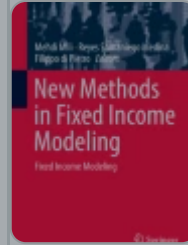
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Notes

1. Zingales (2009) is not the only paper claiming that there exists such a

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4. Bebchuk and Neeman's ([2010](#), p. 1110) prediction 4 states: "Investor protection will be higher in growing economies in which the value of the new capital that needs to be raised from outside investors is largely relative to the value of the capital already in the hands of existing public firms."
5. Brown et al. ([2013](#)) study the impact of shareholder protection on (young) firms' spending on research and development. Martinsson ([2013](#)) discusses how financial regulation might even impact the demand for skilled labour. In a similar manner, Peev ([2015](#)) shows that firm-level growth in transition economies is positively affected by measures of country governance.
6. Our results hold if we extend the series 2010. See Sect. [3.3](#).

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11. In order to avoid our results being driven by the financial crisis or the Madoff scandal, we consider only data up to 2007. We provide a robustness check for the time until 2010 in Sect. [3.2](#). The number of observations we use is comparable to Jackson and Roe ([2009](#)) who use, at most, 55 observations. Furthermore, the normalization procedure used in Jackson and Roe ([2009](#)) is comparable to the one employed in this paper.
12. Data on the number of stocks traded on the NYSE is obtained from NYSE ([2009](#)). We use the Bureau of Labor Statistic's consumer price index (Bureau of Labour Statistics [2009](#)) to inflate the SEC's budget to 2007 dollars. It should be remarked that the results of our empirical analysis can also be derived independently of this normalization. We discuss this is issue in Sect.

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17. The results are very similar if we detrend *sec_budget* using a second degree polynomial. Lohse et al. ([2014](#)) use this approach.
18. The multivariate SBC are calculated as $-\ln(SBC) = T \cdot \ln \left(\frac{|\varOmega|}{T} \right) + k \cdot \ln T$ where T is the number of usable observations; $|\varOmega|$ is the determinant of the variance/covariance matrix of the residuals; and k is the number of parameters estimated.
19. In this paper we follow the suggestion of Sims and Zha ([1999](#)) and obtain confidence bands by Monte Carlo integration.
20. ARCH stands for autoregressive conditional heteroskedasticity.

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