Leveraged Interests: Financial Industry Power and the Role of Private Sector Coalitions[1]

Draft, May 2012.
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Abstract

The power of financial industry groups over financial regulatory processes is a subject of widespread academic and public debate. Existing international political economy (IPE) scholarship has highlighted how different resources, institutions and structural features allow financial industry groups to influence financial regulatory policymaking. In so doing, however, this literature routinely tends to neglect the wider array of interest groups beyond the particular financial industry groups being regulated. Such an analytic bias, we maintain, obscures the potentially important role that private sector *coalitions* play in 'leveraging' the influence of financial industry groups in the policymaking process. Proceeding from a new dataset on private sector mobilization and four case studies of actual lobbying dynamics in financial regulatory policymaking, we argue that private sector coalitions are not only prevalent in financial regulatory policymaking, but also may be one important key to understanding the power of financial industry groups in contemporary IPE.

[1] For helpful comments, we are grateful to Raymond Hicks, Robert O. Keohane, Kirsten Leng, Helen Milner, Jonah Schulhofer-Wohl, Leonard Seabrooke, Tuan-Hwee Sng, and Eleni Tsingou. Irene Spagna provided invaluable research assistance on this project.

The recent global financial crisis has contributed to a resurgence of interest in financial sector industry groups such as banks, credit rating agencies, and hedge funds, and the influence these groups and their associations exercise over the shape of contemporary financial regulation. Conjectures regarding the power of these groups are widespread within the international political economy (IPE) literature, and numerous authors have debated how different resources, institutions and structural features of contemporary economies enable financial industry groups to influence the regulations to which they are subject.

Such attempts by IPE scholars to explain how the financial industry is able to exercise influence over regulation have set the study of financial regulatory policymaking on a different path from investigations of governance in other areas of the global economy. Numerous studies in the IPE of trade literature,[2] global environmental governance[3], exchange rate policy[4] and international monetary integration[5] have highlighted how competing industries and cross-sectoral coalitions often act to shape policy outcomes. In contrast, IPE scholars investigating the process of financial regulatory policymaking have traditionally concentrated their analysis on a rather narrow set of financial sector actors, while assuming that collective action problems, information asymmetries, and exclusionary institutional contexts constrain the plurality of actors involved. For instance, numerous studies of banking regulation at the national and international level have focused exclusively on banks and banking associations and the strategies they employ to achieve their preferred outcome. Likewise, analyses of insurance and hedge funds regulation usually focus exclusively upon what insurance and hedge funds associations do, respectively.

Contrary to this perspective, in this article we contend that the mobilization of a plurality of private sector groups both inside and outside of the financial sector is a an important factor in affecting the policy-shaping power of financial industry groups. Specifically, we argue that the ability of financial groups targeted by a regulatory policy to tie their interests to those of other private sector groups and to form coalitions helps them to amplify – or 'leverage' – their influence over the regulatory policymaking process. Private sector coalitions matter because they allow the financial industry to bring different kinds of resources to the lobbying process, to open new channels of access to policymakers, and to increase the credibility of their claims. Yet such leverage, we contend, comes not only with benefits but also, occasionally, with risks as well. Although the influence of financial industry groups can be enhanced through coalitions, it is weakened if other private sector actors mobilize against their regulatory preferences.

The paper is structured as follows. In Section 1, we review the existing literature on the power of financial industry groups over the design of financial regulatory policies, and highlight the neglect of coalitional dynamics within this scholarship. Section 2 lays out the theoretical motivations for conceptualizing the influence of financial industry groups as leveraged and conditional. With our theory set out, the remainder of the paper explores and tests some of its central propositions. In Section 3 we explicate a quantitative analysis of private sector mobilization in response to regulatory policy proposals, using data from national and international policy consultations in both finance and other regulated sectors. Our results

[2] See Rogowski 1990; Bauer, Pool and Dexter 1963.
[3] Falkner 2007.
[4] Frieden, 1991; Henning 1994.
[5] Frieden, 2002.

demonstrate that the range of business interest groups mobilize in response to financial regulatory policies is more diverse than for non-financial regulatory policies. The effect of this mobilization is then explored in Section 4 through a series of illustrative case studies in different issue areas and institutional contexts. Our conclusion discusses the implications of our findings for the IPE literature. We argue that the complex web of relations that link financial groups with a great plurality of interests represent a unique feature that distinguishes the politics of financial services regulation from other areas of the global political economy. At the same time, our approach calls for a more contingent understanding of financial industry influence as the mobilization of non-target groups may either strengthen or weaken the degree of influence that financial industry groups have over the policymaking process.

Section 1 - Existing Perspectives on the Power of Financial Industry Groups

In recent years, a large body of IPE literature has emerged which seeks to investigate the influence that the financial industry exercise over the regulatory policymaking process. Scholars from varying analytical perspectives have described this influence as extensive and systematic. The frequent references to the term ‘regulatory capture’ reflect the common belief among scholars that the financial industry is often *making* policy, rather than *taking* policy.[6] A diversity of perspectives have been put forward with respect to how financial industry groups are able to have such extensive policy influence.

First, an important stream of scholarly research has emphasized the particular resources that financial industry groups can deploy in the policymaking process to shape the content of regulatory policies. For example several authors have highlighted the greater concentration of wealth in the financial sector in recent decades, and how this has corresponded with an increase in the financial resources used to lobby policymakers.[7] Moreover, money is not the only resource that financial industry groups possess in abundance; they also possess a considerable amount of technical expertise. The strategic use of information by interest groups and the informational dependence of regulatory policymakers upon such information are well established as “the coin of the realm” in the world of lobbying.[8] The informational advantage of the industry is a particularly valuable resource in the case of financial regulation, where the highly technical and dynamic nature of financial markets and the complex nature of the financial regulatory process have increasingly made regulatory authorities “captive of knowledge specialists”.[9]

Second, attempts to make sense of the power of the financial industry have also drawn scholarly attention to the institutional conditions that structure societal groups’ access to the financial regulatory policymaking process. A central claim in this regard is that the statutory autonomy of financial regulatory agencies from politicians and other state institutions disguises the close relationships that develop between regulators and the industry they regulate and oversee.[10] Different authors have gone beyond the formal institutional context and emphasize instead informal institutions, such as the so-called “revolving doors” between individuals from

[6] Baker, 2010, Ocampo 2009, 10, For the original concept see Stigler, 1971,
[7] Igan, Mishra, and Tressel 2009, Johnson and Kwak 2010.
[8] Hall and Deardorff 2006;
[9] Lindblom 1977, 120, cited in Tsingou, 2006, 172; also see Cerny 1994, 331; Underhill and Zhang 2008, 553.
[10] Underhill and Zhang 2008.

the industry and regulatory personnel.[11] Besides supposedly skewing the incentives of regulators, scholars have argued that the flow of individuals from the financial industry to regulatory agencies has fostered the emergence of like-minded policy communities based on common technical expertise, training, economic ideas, and common professional norms, which have reinforced the ties between the financial industry and regulators.[12] Thus while financial industry groups possess considerable resources to influence regulatory policymaking, their influence is amplified by the relatively exclusionary institutional context in which financial regulation is generated.

The third set of conditions emphasized by the existing literature stresses the importance of finance's structural power, which is understood to be a historically contingent consequence of the current period of global capitalist development. In particular, a rather broad range of research gathered under the label "financialization" has highlighted the increased importance of financial sector accumulation since the 1970s in the operation of the domestic and international economy.[13] The globalization of financial flows is understood as critical in underwriting this structural power, primarily because it is understood to constrain the policy environment in a way that benefits the interests of financial industry groups.[14] Indeed, for some scholars the entire structure of global capitalist development is ordered by, and in turn privileges, financial sector accumulation.[15] Because of the central position of finance in the global economy, policymakers are wary of introducing policies that may disrupt the "golden goose" of financial sector accumulation, and they are more likely to listen to the concerns of financial industry groups than to those of firms in other sectors.[16]

The insights of this diverse literature are important to acknowledge. Yet even amongst the diversity of these perspectives, there is a unifying emphasis on *which* societal actors matter in shaping the content of regulatory policies. When it comes to the regulation of finance, these studies have focused primarily on those financial sector actors being directly 'targeted' for regulation. This analytical tendency of focusing rather exclusively on the 'target group' derives from the same conditions identified by the IPE literature to explain the privileged position of financial industry groups in the financial regulatory process. Many non-target groups will have neither the financial firepower nor the technical expertise required to compete in the market for regulatory influence with those financial industry groups who are the direct targets of a regulatory policy proposal.[17] Moreover, the same features of the institutional environment that privilege financial industry groups are also perceived as barriers constraining the mobilization of other groups who can't 'break into' the closed policy network that characterizes financial governance.[18]

As a result of these assumptions, the analysis of financial regulation has taken a different trajectory from other areas of global economic policymaking that have been analyzed through

[11] Braun and Raddatz 2009.
[12] Tsingou, 2008; Johnson and Kwak 2010.
[13] Krippner 2005; Montgomerie 2008; Epstein 2005.
[14] Gill and Law 1989; Andrews 1994; Sharman 2010, 15.
[15] Cf. Arrighi and Moore 2001; Nitzan and Bichler 2009.
[16] See Baker 2012.
[17] Baker 2010.
[18] Mattli and Woods 2009.

the lens of (pluralist) 'interest groups politics,' which examines how a *variety* of interest groups mobilize to try and shape policies. Instead, most analyses of the regulatory policymaking process in finance have centered exclusively on the specific financial industry group targeted for regulation, in isolation from the rest of the financial sector and indeed from the rest of the business sector in general. For instance, numerous studies which have investigated the evolution of the international regime for banking regulation have focused on the lobbying activities of banks and banking associations over the members of the Basel Committee on Banking Supervision.[19] Interest groups outside of the financial industry were described by Helleiner and Porter as "almost entirely absent from the consultative process" that led to the formulation of the international Basel II agreement.[20] Similarly studies that have studied the evolution of the European financial regulatory architecture have denounced the over-representation of large financial industry groups and the "under-representation of other societal stakeholders".[21] Indeed, the empirical status of actor diversity is at the heart of theoretical debates concerning the nature of a global financial public sphere, with different authors theorizing this space as one where "plurality of active participation is severely restricted".[22]

There are good reasons, however, to suspect that this analytical focus of existing IPE of finance scholarship may be misleading, and that a broader set of non-target groups may play an important role. After all, despite all the complexity of modern finance, its regulation concerns the (contested) management of a resource which is highly unique, namely credit. The centrality of finance to the rest of the economy means that financial regulatory decisions often have significant spillover effects for other private sector actors, such as corporate end-users of financial services, other financial counterparties, and indeed the multiplicity of business actors that depend on flows of credit, thus increasing the range of private sector actors who may have an interest in mobilizing in response.

While these groups may be tempted to simply free-ride on the mobilization of the financial industry groups targeted for regulation, this strategy is rational only in those circumstances where their preferences completely converge on every issue with those of the target group. Moreover, the actual costs of mobilization may not be very high in many instances, in particular when it amounts to a relatively simple 'signaling' of a group's position on the regulation in question, and they may be outweigh by the selective benefits that industry-wide associations receive from appearing to take action on issues relevant to the industry's interests.[23] Indeed, in many circumstance the financial industry group targeted for regulation will *subsidize* the costs of mobilization of other groups, for example by strategically providing information regarding the costs that the regulation would impose upon other groups that are only indirectly affected by this policy.

In sum, there are important theoretical reasons why in the context of financial regulatory policymaking the disincentives to non-target participation may not be as significant as expected. Some recent analyses of the global financial crisis have provided anecdotal evidence that the

[19] E.g. Wood 2005; Lall 2011.
[20] Helleiner and Porter 2010, 20.
[21] Mügge 2010, 9.
[22] Baker 2009, 198, in response to Germain 2004, 198. See also Mooslechner, Schubert, Weber 2006.
[23] Hula 1999.

diversity of mobilization may have increased due to the increased salience of financial regulation.[24] Yet the literature has so far failed to provide an adequate understanding of this plurality of private sector actors and its consequences over the design of regulatory policies in any systematic way – a surprising absence given the centrality of finance in contemporary economic life. We address this through our proposed 'leveraged interests' approach below in the next section.

Section 2 – A Leveraged Interests Approach

In this section we argue that the influence wielded by financial industry groups who are targeted for regulation is influenced by the mobilization of a plurality of private sector actors within and outside the financial sector. The importance of interest group coalitions has a long pedigree in political science. Since the emergence of the pluralist paradigm in the early 1960s, the extent of the competition between a plurality of competing interests has remained one of the central debates that has informed the modern American political science literature.[25] More recently, a new wave of studies has recognized how the possibility that a plurality of heterogeneous and potentially competing interests groups may join forces in coalitions has become a central aspect of contemporary interest group politics. As Baumgartner et al. have recently argued, "[a]dvocates do not work alone in policy debates … Large corporations sometimes worked with representatives of ethnic minorities. Huge pharmaceutical companies sought out patients' right groups or others who have a more favorable public image. Citizen groups often were part of coalitions with wealthier organization of different types".[26] Numerous works have explored under what circumstances coalitions are likely to form, their characteristics, and what impact they can have in conditioning outcomes.[27]

This attention to interest group plurality and coalitional dynamics seems to be largely missing within the IPE of finance literature. With some rare exceptions,[28] most analyses have presented the financial industry as a rather cohesive group, rarely unpacking the differences in the resources, preferences and mobilization strategies of financial groups as different as banks, asset managers, or insurance companies, nor addressing their interaction with non-financial groups in shaping the content of regulatory policies. In what follows below, we argue that the influence of financial industry groups over the financial regulatory process can be conditioned in important ways by the behavior of other private sector actors. We call this a 'Leveraged Interests' approach – conveying the notion that, as an interest constituency, the power of financial interest groups may be 'leveraged', or amplified by, the existence of supporting coalitions. Our understanding of 'coalitions' is an intentionally broad one, and includes both formal alliances of 'lobbying together' as well as informal alliances whereby groups mobilize over the pursuit of some shared goal in the policymaking process.[29] In this regard we are as much interested in relations between groups within the financial sector – those targeted for regulation,

[24] Helleiner and Pagliari 2011; Clapp and Helleiner 2012.
[25] Dahl 1961; Cf. Bauer, Pool and Dexter 1963; Lowi 1964.
[26] Baumgartner et al. 2009, 204.
[27] Hojnacki 1997; Hula 1999; Baumgartner et. al. 2009; Holyoke 2011.
[28] Clapp and Helleiner 2012
[29] This is similar in approach to Baumgartner et. al.'s approach to "sides" of an issue. See Baumgartner et. al. 2009.

and those not – as we are interested in relations between targeted financial industry groups and groups outside the financial sector altogether.

There are a variety of reasons why we might expect coalitional dynamics to influence the capacity of financial industry groups to shape financial regulatory policies. First, the mobilization of more groups amplifies the resources directed toward a common goal. As Hula argues, coalitions provide a low-cost way for groups to expand their lobbying efforts by sharing advocacy resources, both financial resources directed towards lobbying as well as nontangible resources such as intelligence and expertise.[30] Moreover, a greater diversity of actors involved might bring a wider spectrum of resources to the (lobbying) table, aside from those that the targeted financial industry groups themselves can mobilize on their own. As the interest group literature in US domestic politics has established, "constructing a successful team implies recruiting players who have complementary, not duplicative, skills".[31] While financial industry groups have an advantage vis-a-vis other groups in their use of financial resources and technical expertise to influence regulatory policies, as well as in their preferential access to financial regulatory agencies, they are at a disadvantage vis-a-vis other groups when it comes to other advocacy resources, such as the "mass membership or support" that small business associations and citizen groups can mobilize, or the "employment generating capacity" of corporate actors.[32] The capacity to form a coalition with these groups frequently represents a boost not only to the legitimacy of a cause sponsored by a financial groups, but also to their capacity to raise the attention of elected politicians.[33] As we demonstrate below, such "resource complementarity" has become critically important in the aftermath of the financial crisis, when the backlash against the financial sector has weakened the effectiveness of their financial and technical resources in shaping regulatory policies, while elected policymakers have been particularly attentive towards the impact of regulatory policies on the economic growth and employment.

A second reason why coalitions may affect financial industry power has to do with *channels of access to the policymaking process*. A privileged channel of access to a friendly government official sharing the same policy goal often represents the most important resource an interest group may have.[34] In this vein, although financial industry groups may have a privileged access to their regulators at the national level, and sometimes the transnational networks of regulators, these are not the only institutions actively involved in the design of financial regulatory policies. The capacity to form coalitions with non-financial groups, for example, could open up new channels of access to government branches, parliamentary committees, or competing regulatory agencies that might otherwise be less receptive to the demands of financial lobbies and more receptive to the claims of the non-financial groups.[35]

A third and final reason why coalitions can be expected to affect the ability of financial industry groups to influence regulation has to do with their capacity to function as a signaling device. The capacity of the financial industry to generate a broader coalition in support of its claims can convey information about the support of a broader range of groups that transcend the

[30] Hula 1999.
[31] Baumgartner et al. 2009, 205.
[32] Josselin and Wallace 2002.
[33] Baumgartner et al. 2009, 194.
[34] Baumgartner et al. 2009, 194.
[35] See also Clapp and Helleiner 2012.

group directly targeted financial sector, which policymakers must consider, while giving to its claims additional credibility.[36]

However, it does not always follow that the diversity of private sector mobilization always enhances financial industry power, in a linear fashion. Indeed, the mobilization of non-target groups can also damage lobbying power when non-target groups, whether within the financial sector or otherwise, mobilize in opposition to the demands of the target group. Such 'countervailing coalitions' can act to diminish the relative power of the targeted financial industry groups' resources and the credibility of their claims - though as we demonstrate in the next section, this empirical situation is relatively rare.

Our understanding of financial industry power as 'leveraged' power can be represented in the following way. When a financial industry group is targeted for regulation, the extent of its influence can be understood as conditional on two factors which interact: namely, the extent to which other interest groups are mobilized over the policy issue in question, and the extent to which the preferences of non-financial groups converge with those of financial industry groups. Figure 1 below shows the variability of the predicted influence of a targeted financial industry group under different configurations of the mobilization and preferences of non-target groups.

As Figure 1 illustrates, the predicted influence of a targeted financial industry group over the policymaking process is at its greatest in those situations where non-target groups' preferences converge with those of the targeted group, *and* when these non-target groups also mobilized around the issue (*Quadrant D* in Figure 1 below). When preferences converge but non-targeted actors' don't respond, (*Quadrant C*), the prediction is that the influence of the targeted group is less than in *Quadrant D,* where the targeted group may have a credible claim that the regulatory policy in question will affect more than just itself, but given that it's allies have not mobilized, it is unable to leverage the full extent of their resources. *Quadrant A* denotes a situation where the influence of a targeted group will be constrained when there is no alignment in the interests of non-target and targeted groups, but where the former are not themselves mobilized. Although the non-target group(s) are not actively challenging the position presented by the targeted group, the targeted group would not be able to make a credible claim regarding the dispersed consequences of not having their preferences met. Finally, *Quadrant B* predicts that a targeted groups' influence over the policymaking process is at its lowest when the preferences of non-target groups are divergent and these groups mobilize to express these preferences to oppose or 'countervail' the targeted group.

Figure 1: Expectations of Financial Industry Groups Power

	Low mobilization of non-target groups	High mobilization of non-target groups
No Convergence of interests between targeted PFIGs and other groups	(A) -	(B) - -

[36] Hula 1999; Mahoney 2008, 168.

Convergence of interests between targeted PFIGs and other groups	(C) +	(D) ++

In what follows below, we provide an empirical basis in support of this leveraged interests approach by demonstrating that non-target groups do indeed mobilize over financial regulations, even at the international level, and that in actual fact non-target participation in financial regulatory policymaking is more diverse than the IPE literature assumes.

Section 3 – Assessing Actor Plurality in Financial Regulatory Policymaking

The relevance of the theory highlighted above is dependent on whether non-target groups actually do mobilize in the context of financial regulatory policymaking Thus in this section we develop an empirical analysis which explores this diversity in its various dimensions. To engage in this analysis, we generated a new dataset composed of the publicly available written responses by private sector actors to a wide range of policy consultations at different levels of governance. In recent years, it has become common for regulatory agencies in finance and other sectors to open regulatory proposals to formal consultative processes. From the perspective of regulators, responses to such consultations provide important technical feedback as well as a much-needed source of systematic information about private sector sentiment over policies and about the possible impact that the regulatory policy may have over different groups. For our purposes, responses to such consultations serve as a useful proxy indicator for mobilization of different groups. Private sector groups have a strong incentive to contribute to consultative processes and to leave a record of their positions, and data from these policy consultations is widely deemed as valuable in the wider IPE literature.[37] Although policy consultations do not represent the only mechanism available for advocacy and do not allow us to weight the relative importance of individual respondents, these written responses to policy consultations do nevertheless provide a relatively systematic ‘trace’ of what actors tend to mobilize in response to different regulatory policies as well as what their specific position are.

We selected a wide variety of consultations on financial regulatory policy taking place between 1996 to 2012, at both national and international levels of governance. National-level consultations include countries characterized by very diverse institutional contexts and diversity in in the role played by the financial sector, covering Canada, Germany, the United Kingdom and the United States. In addition to these national-level consultations, we included consultations conducted at the European Union level as well as those conducted by the transnational regulatory bodies widely discussed within the IPE of finance literature, such as the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO).

[37] See Préfontaine 2010; Wood 2005; Young 2012.

In order to assess the potential uniqueness of private sector mobilization in the case of financial regulation, we also selected variety of consultations around regulatory policies concerning other sectors of the economy. In this regard, we selected consultations within the energy sector, health care and pharmaceuticals, agriculture, and the telecoms and information services industry. In total we collected and coded 14,825 responses to 308 different policy consultations across finance and these other sectors, covering a total of 58 different governance bodies (for summary statistics see the Appendix).[38] For each comment letter in our dataset, we coded the identity of the authoring group, differentiating respondents who were from business groups from those groups in the trade union movement, consumer protection organizations, research institutions, and NGOs. Table 1 below provides a breakdown of the different kinds of groups responding to policy consultations which target business activity in different regulated sectors.

Table 1: Percentage of Respondents to Consultations in Different Regulated Areas

Respondent	*Agriculture*	*Energy*	*Telecoms*	*Health*	*Finance*
Business Groups	78.74	84.83	93.12	77.94	87.06
Trade Unions	1.07	1.12	1.06	0.32	1.47
Consumer Protection	0.74	0.94	0.92	1.83	1.15
Research Institutions	5.23	3.97	1.42	9.06	3.65
NGOs	14.22	9.14	3.48	10.84	6.67

Such a 'bird's eye view' of our data provides some empirical support to those claims from the existing IPE literature regarding the "exclusionary" nature of the financial regulatory policymaking. Indeed, Table 1 illustrates that respondents to financial sector consultations tend to be more dominated by business groups than other sectors (the exception being policy consultations in the telecoms sector). Yet while consultations targeting finance are associated with low proportions of respondents from trade unions and consumer protection groups, this appears to be a relative mainstay of most regulated sectors. Where financial consultations appear to be distinct (along with telecom consultations) is with respect to the relatively low mobilization of NGOs.[39]

What is missing from the data of Table 1 and from most analysis of the mobilization surrounding financial regulatory policymaking is a better understanding of the different *kinds* of business groups that mobilize around regulatory policymaking. In order to better differentiate the plurality of actors within the business community, we disaggregated the respondents to policy consultations according to the economic location of each respondent within a spectrum of 53 different economic categories, across 9 different sectors of the economy.[40] For each consultation,

[38] Given the focus of our study on private sector mobilization, we have excluded those responses coming public actors, such as governments, regulatory agencies, or public international organizations, as well as individuals.
[39] Our data indicate that most of the NGO mobilization in finance has been since the beginning of the global financial crisis in 2008 – an increase by 288%.
[40] This categorization was created in an attempt to correspond as best as possible to sectoral categories of standard industry classification schemes used in actual accounting taxonomies of the economy, such as the North American

we identified the specific categories of groups who were the intended target of the regulation. This allowed us to code for each letter submitted to a consultation whether or not this group was being targeted for regulation (the 'target'), whether it was within the same sector as the primary targeted group ('sectoral co-habitant'), and whether it was outside the sector of the targeted group altogether ('outsider). Thus for example in the case of a consultation on banking regulation, a bank respondent is coded as a target, but a mutual fund or insurance company is considered a sectoral co-habitant, while agricultural associations or manufacturing firms are coded outsiders. We apply the same coding logic to non-financial consultations as well: thus for example for a consultation on pharmaceutical regulation, a drug company who responds is coded as a target group, a hospital is coded as a sectoral co-habitant, and an automobile company or insurance firm are coded as outsiders.

Table 2: Sectoral Diversity of Business Respondents in Different Regulated Areas, as Percentage of Total Business Respondents

Respondent	*Agriculture*	*Energy*	*Telecoms*	*Health*	*Finance*
Targets	83.18	69.68	84.07	64.71	45.12
Sectoral Cohabitants	5.71	11.07	11.28	19.10	29.94
Outsiders	11.12	19.25	4.65	16.19	24.94

As Table 2 suggests, the respondents to consultations around financial regulatory policies tend to be more highly differentiated *within the business community* than those responding to consultations targeting non-financial groups. Thus while the regulation of finance is associated with considerably less participation by non-business groups such as NGOs or trade unions, the participation of business groups that are not directly targeted by the regulation is significantly higher than in other sectors. More 'outsiders', i.e. groups not belonging to the economic sector being regulated, mobilize in response to financial sector consultations than any other sector, with the only exception being the regulation of the energy sector, a sector that, interestingly, also provides 'infrastructural' resources foundational to the operation of the rest of the economy.

Given the wide range of factors which may constrain the mobilization of actors in financial regulatory policymaking, we sought to analyze our policy consultation data more systematically, controlling for the net effects of various confounders. To this end we specified a simple multinomial logistic regression model in which the outcome category of interest is the kind of actor responding to the consultation (e.g. either 'outsider', 'NGO', etc.), whereby the base category of comparison is a response by the target group. We included in this analysis factors which existing scholarship cites as limiting the plurality of actor mobilization. Some authors have suggested that the constraints on actor plurality increases as we move from the national to the international levels of governance, since the asymmetries in the distribution of information and the organizational resources required to mobilize may be greater at the international level.[41] Thus the migration of regulatory policy design to international bodies such

Industry Classification Scheme (NAICS), and the International Standard Industrial Classification of All Economic Activities of the United Nations.

[41] Kahler and Lake 2009; Mattli and Woods 2009.

as the International Accounting Standards Board[42] and the Basel Committee on Banking Supervision,[43] as well as the European level[44] has weakened the capacity of many interest groups to participate in the regulatory policymaking process and to counter the dominance of transnationally-active financial firms.

Some existing work has also suggested that the plurality of actors that mobilize may be influenced by the issue saliency of a given policy area. In this regard the mobilization of non-target groups has been described as particularly difficult during periods of "quiet politics", when financial regulation has little political salience and other groups may believe themselves to be at a disadvantage vis-a-vis the target group in understanding the distributional impact of regulatory policies.[45] In a similar vein, crises which may favor the mobilization of societal actors besides the targeted actors by producing a 'demonstration effect' which reveals the distributional implications of poor regulation and its political stakes, making it more likely that a broader segment of interest groups mobilize[46] To account for the relative effect of issue salience across time and across sectors, we measured levels of average attention given to the regulated sector in question within the printed news media, for the given year and level of governance in which a policy consultation took place.[47] We also accounted for the 'demonstration effect' that may occur following the financial crisis through the use of a dummy variable that captured whether or not a consultation response took place after September 2008, the month widely regarded as the pivotal date in the financial crisis.

Finally, we also considered whether the degree of sectoral heterogeneity in the mobilization of different groups might be the product of the economic importance of the industry being targeted for regulation. To do so, we included a variable which assesses the percentage value added of each economic sector being regulated, within a given year and respective level of governance.[48]

In order to assess the independent net effect of targeting finance we used random sampling to generate 1000 comment letters for each of the main regulated sectors of comparative interest: agriculture, energy, information services, health care and finance. To ensure all our results are statistically sound, we included a control variable for the size of each consultation, and we clustered error terms at the consultation level.[49] We ran a series of different robustness

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[42] Nolke and Perry 2007.
[43] Claessens Underhill and Zhang 2008.
[44] Weber 2006; Mügge 2010.
[45] Baker 2010.
[46] Mattli and Woods 2009; Culpepper 2011.
[47] This particular approach in measuring issue salience effects has been advocated by Epstein and Segal 2000; for a recent application of this method business lobbying, see Culpepper 2010. For each sector, for each year of our consultation data, and for each level of governance we selected all English-language articles published by Reuters Newswire which contained the term "regulat*", restricting the search to the title and first paragraph, and developing three different issue salience variables that are described in the Appendix..
[48] Specifically, for each sector being targeted for regulation, we took the gross value added accounted for by the sector being regulated divided by the total value added of all industries. These values are differentiated by the relevant country and level of governance, and are sourced from the OECD Structural Analysis of National Economies (STAN) database.
[49] This is measured by the number of total respondents, with the distribution smoothed by a natural log function. We checked the non-logged measure for robustness, and our results are not significantly different.

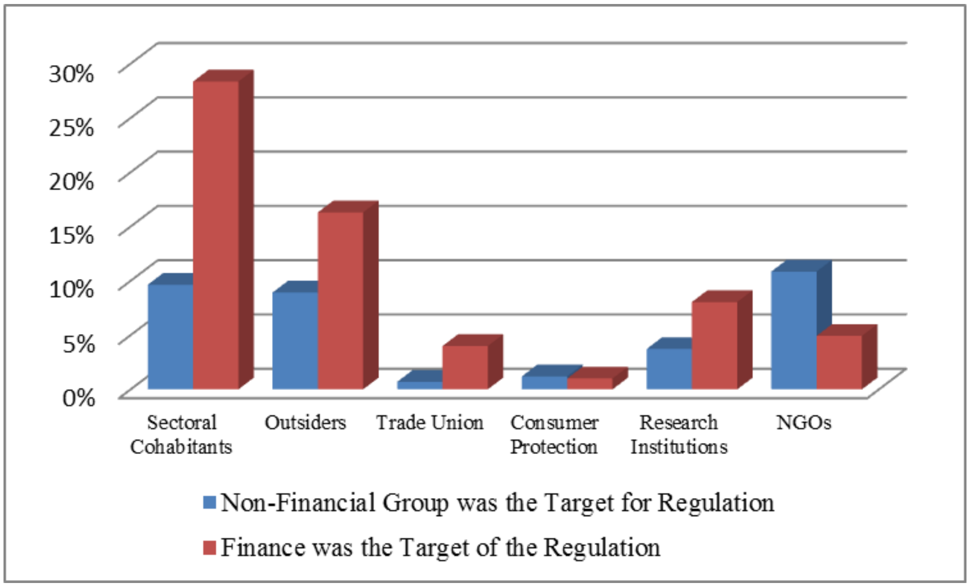
checks on our results,[50] and even considered the possibility that business groups within some sectors might mobilize in greater numbers than others, independently of the content of a given consultation.[51] Our statistical results (with detailed tables reported in the Appendix) show strong support for the notion that regulation targeting financial industry groups is associated with greater diversity of business respondents than when regulating other areas of the economy. Even when controlling for other relevant factors such as the level of governance, issue salience, and the structural economic importance of the sector being targeted for regulation, financial regulation is still associated with a positive and highly statistically significant (at the 1% level) relationship with the mobilization of sectoral co-habitants and outsiders. As expected by existing literature, the level of governance has a negative effect on the diversity of private sector responses, but this effect is only statistically significant when it comes to outsiders, and the treatment effect of targeting finance still stands. The effect of issue salience also appears to be negligible, even when we used several different measures.

Because the magnitude of logit coefficients are difficult to interpret, we estimated the mean probability that each category of respondent would mobilize, conditional on whether the regulation was targeting finance or non-financial sectors of the economy. Figure 2 illustrates the mean probability estimates for each category of respondent, both when finance is targeted and when it is not. Because random sampling generates variation in these estimates, we ran 50 different series of random samples – these results reflect the mean of these results. As this figure illustrates, when a financial group is targeted, there is significantly higher probability of sectoral co-habitants and outsiders responding than it is the case when a non-financial group is targeted, even when controlling for other relevant factors.

Figure 2: Predicted Probabilities for Different Kinds of Actor Mobilization, Comparing Financial and Non-Financial Regulatory Consultations

[50] Cognizant of the assumptions of multinomial logit models, we ran Small-Hsiao tests to determine that our different outcomes were independent of irrelevant alternatives. Though this suggested the use of multinomial logit to be appropriate, we nevertheless ran multinomial logit models with only business sector respondents, and also ran binary logit and probit models as well - none of these changes altered our main results.

[51] To account for this potential effect, we coded a number of policy consultations which had economy-wide targets. We then used the mean value for the percentage of respondents to these consultations for each sector of the economy as importance weights in the regression models specified above, thus ‘discounting’ the mobilization of groups that tend to mobilize a great deal already. Our results of this analysis, suggest that when such potential selection effects are taken into consideration, the main effects we observe are actually stronger.



Overall these findings support the notion that financial regulation is associated with less mobilization by civil society groups, trade unions, consumer groups, than other sectors.[52] However, contrary to what the IPE literature assumes, our findings suggest that the diversity of business groups that mobilize in response to financial sector consultations is greater than other sectors, even when controlling for other relevant factors – suggesting that the regulation of finance is associated with a unique ecology of interest group mobilization.

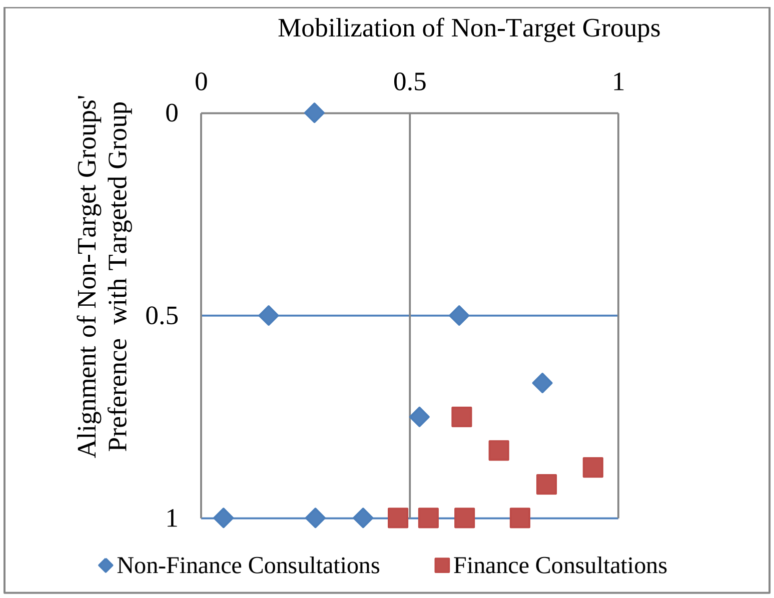
While there is strong evidence that private sector groups beyond just those targeted for regulation mobilize, it is still an open question whether or not these groups lobby 'with' or 'against' the financial industry group(s) being targeted for regulation. In order to assess to what extent the preferences of non-target groups will converge or diverge from those of the main financial groups targeted by the regulation we have deepened the analysis of a subset of our dataset, analyzing the content of the comments letter rather than the sectoral origin of the respondents. Within our dataset we selected 8 policy consultations in finance, and 8 in other sectors such as energy, pharmaceuticals and the agricultural sector, maintaining an even balance of national and international-level policy consultations for all. For each consultation we selected the peak association representing the industry being regulated, and took a random sample of 15 other business respondents who had also mobilized in that consultation. For each of these 15 respondents we followed a simple coding technique to assess whether or not they raised the same policy concerns as the peak association..[53] This simple coding of preference alignment allows us to assess which kind of respondents express preferences either aligned with or in opposition to the peak group being targeted in each consultation. The results of this analysis (summary

[52] Although, it must be noted, as Figure 1 illustrates, estimates of trade union and consumer groups' mobilization when controlling for other effects is quite marginal to begin with.
[53] Specifically, we differentiated between instances where the respondent raised similar concerns to that of the peak association (coded as '*solidarity*'), instances where the respondent opposed the position of the peak association (coded as '*dissensus*'), and instances where the respondent was neutral with respect to the concerns of the peak association or raised different issues altogether (coded as '*neutral*'). We also considered a wide variety of different preference coding schemes, such as Lickert scales; however, a series of inter-coder reliability checks (using Cohen's Kappa method) established that the simplest option was the most reliable.

statistics are reported in the Appendix) suggest that policy consultations which target financial industry actors are more likely, on average, to be associated with more preference convergence than non-financial consultations. In other words, when non-target groups mobilize in response to a financial policy consultation they are more likely to be in solidarity with the main financial group targeted by the regulation than is the case for consultations targeting non-financial actors.

Combining the results of this preference sampling analysis with our data on actor mobilization allows us to represent a spatial configuration of non-target mobilization and non-target preference convergence. As Figure 3 below illustrates, our analysis suggests that when financial industry groups are targeted for regulation they are often surrounded by non-target groups which mobilize alongside them not to oppose them but in solidarity with their preferences. The horizontal axis measures the percentage of non-target groups among all the groups mobilizing in response to a given consultation, while the vertical axis measures the percentage of preference alignment of non-target groups in the same consultation.

Figure 3: Mobilization and Preference Alignment of Non-Target Groups



Such findings provide empirical support for the notion that the financial industry groups targeted for regulation are more likely to find themselves in the presences of other private sector actors sharing similar regulatory preferences as them that it is the case is non-financial regulatory policies. Whether or not financial industry groups targeted for regulation are able to actually make use of this ‘leverage’ is, however, another matter. In what follows below we explicate four case studies which explicate the process of ‘leveraged interests’ at work within the context of financial regulatory policymaking at various levels of governance.

Section 4 - Assessing the Conditional Success of Financial Industry Groups in the Policymaking Process

In the previous section we demonstrated that financial regulatory policymaking is characterized by a unique ecology of business groups from within and outside finance. When financial industry groups are targeted for regulation, their own mobilization is often accompanied by the mobilization of a diversity of other groups, both within and outside the financial sector. Second, we have shown that these groups tend to express preferences which are often aligned with the financial industry group being targeted. Yet the question still remains as to whether or not these private sector interest coalitions actually make a difference in regulatory outcomes and whether or not financial industry groups actually do manage to benefit from this situation. While policy consultation data is useful for assessing broad patterns of actor mobilization and preferences, it is without a doubt that, responding with a letter to a regulatory policy consultation is not equivocal to being listened to, which is yet different from actually shaping regulatory outcomes.

In order to illustrate the impact that finance's unique interest ecology has, we turn to qualitative evidence drawn from actual instances of financial industry lobbying. For the purposes of explicating 'leveraged interests' at work, we explicate four brief cases. These have been selected among policy areas that have provided the empirical backbone for the much the theorizing on the politics of international financial regulation over the years, that is, the regulation of banks, derivatives, and hedge fund, in a variety of national and international policymaking settings. While the existing literature analyzing these areas has focused almost exclusively on a restricted number of financial industry groups targeted for regulation, our aim here is to demonstrate the importance of private sector coalitions 'in motion', highlighting the fact that variation in the success of financial industry groups targeted for regulation is often conditional on the mobilization of other non-target private sector groups, both within and outside the financial sector. .

4.1 Global Banking Regulation and Bank-Business Coalitions in Germany

The Basel II Capital Accord represented the central international regulatory agreement for banking regulation prior to the global financial crisis. Developed by the Basel Committee on Banking Supervision, at the heart of the Accord was an attempt to generate banking regulatory standards whereby the amount of risk was correlated with the amount of regulatory capital a bank would have to hold. An extensive literature has built up around the formation of Basel II, often citing the ability of banks and banking associations to 'capture' the Basel Committee through various lobbying practices, to the exclusion of other business groups.[54] What is often elided in this literature however is the fact that almost half of the groups who mobilized who were not banks at all, but rather groups concerned about the downstream costs of the regulation.[55]

The case of German banks' lobbying efforts within the Basel II Accord is illustrative of the importance of the mobilization of these groups in influencing the extent to which banks were able to achieve policy change when they fought for it. Soon after the release of the draft of the

[54] Helleiner and Porter 2010; Wood 2005; Tsingou 2008; Young 2012.
[55] Only approximately 51% of respondents were banks; a full 30% were other financial sector groups not directly being targeted for regulation ('sectoral co-habitants'), and 13% were groups outside the financial sector altogether ('outsiders').

Accord in 1999, the German banking community and its particular the formal peak association composed of the five national banking associations in the country (the ZKA, or 'Zentraler Kreditauschuss') began an active campaign of mobilization, raising concerns to their regulators about how the new system of risk sensitivity implied in the methodology would adversely affect lending to the *Mittelstand*, the small and medium-enterprises (SMEs) which formed the backbone of the German economy. The German banking community was able to secure broad access to policymakers, but their demands were not heeded by the German regulators who sat on the Basel Committee, who rejected the notion of adjusting an international financial agreement to ensure sector-specific protection for a class of firms.[56] Such a situation can be understood in the context of quadrant C in Figures 1 and 4 above; the banking groups were able to rely on the figure of the 'Mittelstand' to bolster their arguments but they mobilized largely alone.

This configuration of private sector lobbying in Germany soon entered a second phase as the details of the Basel II Accord became more concrete. Rather than the business community being simply *invoked* within bankers' arguments to policymakers, now non-financial sector groups within the business community became actively mobilized over the issue, such as the National Federation of Industry (the BDI, or Bundesverband der deutscher Industrie), the Association of German Crafts (the ZDH, or the Zentralverband der Deutschen Handwerks), and the German Federation of Industry and Commerce (DIHK, or the Deutscher Industrie and Handelskammerstag). Such groups feared forthcoming damage to lines of credit to SMEs a result of Basel II's particular content when it came to business lending.

These groups communicated their concerns not only to the Bundesbank (the German central bank) and BaKred (the German Financial Supervisory Authority), but also to members of the Legislature, the Bundestag, using their well-developed network to make their views known and provide MPs with information on the issue. [57] Each of these business associations capitalized on the fact that SME promotion was often framed as the foundation for German economic recovery and innovation at the time, and were able to spread their message to journalists and politicize the issue as one of a global agreement damaging German small business, rather than simply damaging bank profits. Banks and the rest of the business community worked together. Both groups regularly exchanged information, and worked together to articulate their concerns to the Ministry of Finance, the BaKred and the Bundesbank. Several members of the ZKA even joined committees within the ZDH in order to encourage a consolidated effort, and private sector groups in this network also reached out to other business associations, such as the Central Committee of Electricians (ZVE, Zentralverband des Elektrohandwerks).[58]

While German regulators continued to put up some resistance, the extensive network of business mobilization throughout the country ignited considerable interest and sympathy from the Ministry for the Economy, the Ministry of Finance, and most importantly the Finance Committee within the Bundestag. This produced an all-party resolution mandating the German Basel Committee to ensure a positive overall result for the German SME sector, leading to an *increase* in credit to German firms.[59] When the German regulators failed to swiftly deliver the desired changes to the Accord, the bank-business coalition stepped up their mobilization even

[56] See Bundestag 2000a; 2000b, 54-55; Interview with former senior German financial regulator, Berlin, 15 April 2009.
[57] Interviews with representatives from various private sector associations, Berlin, 1 August, 4 October 2007.
[58] Interview with ZDH representative, 4 October 2007.
[59] Bundestag 2001b, p. 1.

further, using their combined network of Chambers of Commerce to target MPs during an election year. Reflecting the widespread public efforts, the German Chancellor, Gerhard Schröder, threatened publicly to veto the translation of Basel II into European law unless significant changes were made.[60] As a result of the widespread politicization of the Accord in Germany, the Basel Committee was effectively compelled to adopt in July 2002 an 'SME package' which allowed banks to set aside less regulatory capital against loans to SMEs compared with loans to large corporations.[61] The private sector coalition of banking and business associations achieved their goal, and achieved significant gains as a result.[62]

As this case illustrates, private sector coalitions improved the strength of the lobbying efforts first spearheaded by German banks. The mobilization of German banking associations was a necessary but insufficient condition to achieve a policy reversal by the German regulators, and thus actual policy change at the international, Basel Committee, level. Instead, it was the combined mobilization of non-financial industry groups alongside banks that generated the groundswell of politicized opposition which enabled the desired policy change, denoted by the shift from quadrant C to D in Figure 4 below.

Figure 4: Non-Target Mobilization in the Basel II Accord

	Low mobilization of non-target groups	High mobilization of non-target groups
No Convergence of interests between targeted PFIGs and other groups	(A)	(B) *US Mortgage Insurance Companies Mobilized Against Banks' Efforts.*
Convergence of interests between targeted PFIGs and other groups	(C) *German banks achieved some modest concessions, but did not achieve their central aim.*	(D) *With a bank-business coalition, German banks achieved extensive policy gains.*

4.2 Global Banking Regulation and Real Estate Financing in the United States

While the case of German banks' lobbying efforts in Basel II is illustrative of how non-target actors can have a positive effect on banks' power, an important instance of lobbying in the United States over the same international regulatory agreement reveals the opposite dynamic at work. While residential real estate had always been an area of the Basel II Accord which was treated relatively favorably by the Basel Committee, after conducting more research into banks' own internal risk practices, the Committee decided that certain conservative safeguards should be put in place, especially since mortgage activity was understood to be cyclical in nature, and because residential mortgages were such a large part of banks' portfolios.

[60] See Engelen 2002, 97.
[61] See BCBS July 2002;
[62] See Fabi et. al. 2005, 521 for an explication of the extensity of this important policy change.

US banks did not take too kindly to this conservative change in the international agreement, as they feared constraints on their booming mortgage business. A variety of large US banks such as US Bancorp, JP Morgan Chase, Washington Mutual, Fleet, Wells Fargo and Citigroup took on the issue, and were all particularly vocal about what they perceived to be an irrational and arbitrary move by the Basel Committee. These banks coalesced into a variety of associations, such the American Bankers' Association, the Financial Services Roundtable, the Mortgage Bankers' Association, the Risk Management Association, and even formed a new group calling itself the Consumer Mortgage Coalition, a Washington-based advocacy group organized by the mortgage banking divisions of JPMorgan Chase, Citigroup, and Wells Fargo.[63] Through technical work within these associations, US banks generated a series of highly technical arguments critiquing the Basel Committee's residential mortgage policies.[64] US banks had excellent access to their regulators and chief Basel Committee members, the US Federal Reserve and the Office of the Comptroller of the Currency (OCC), and engaged with them during a period where Congress was highly critical of US regulators' involvement in the Basel Committee and highly sympathetic to banks' concerns.[65] Sensitive to the concerns of their domestic constituency and an often highly politicized line of business (homeownership), the Fed began investigating the empirical dimensions of bankers' claims.

Yet just as this process began, another private sector group not targeted for regulation within Basel II, representing a specific segment of the *insurance industry* stood up to the lobbying plate. Specifically, the Mortgage Insurance Companies of America (MICA) began conducting its own research into the consequences of Basel II's mortgage model for its constituents' interests. As the actors on the other side of banks' mortgage risks, insurance companies had a very different take on mortgage risks than bankers did. In contrast to the banking community, the MICA argued strongly that the assumptions of the Basel Committee regarding the correlation in the default of residential mortgages were too permissive and did not reflect the additional risk associated with residential mortgage lending – a position they bolstered with detailed quantitative evidence.[66]

MICA did not just argue their case to the US regulators, but also actively argued *against* the arguments that large US banks and their associations were making, stating that banks were offering a distorted picture of mortgage risk.[67] US regulators not only heeded these arguments, but actively worked with this group to assess the kind of technical arguments banks were making at the time. [68] The fact that the data provided by this insurance group had both greater depth and greater time coverage than the ones provided by the banking industry undermined the credibility of bankers' technical claims. While the Fed was initially open to the possibility of adjusting the policy in light of empirical evidence, they now became affirmed in the Basel Committee's overall approach. Thus in this case the mobilization of a non-target group with divergent preferences within the same financial industry *weakened* the influence of the group directly targeted by the regulation in question – the situation described in quadrant B of Figure 4 above.

[63] See American Bankers Association 2003, 3; Financial Services Roundtable 2003, 9; Consumer Mortgage Coalition 2003, 3.
[64] See in particular RMA 2003, 63.
[65] See, e.g. FOIA 2004; Interviews with numerous private sector groups and regulators, New York and Washington, July-August 2008.
[66] MICA 2003a, 2-3, 9; MICA 2003b, 10; FOIA January 2004b.
[67] MICA 2003b, 12
[68] See Calem and Follain October 2003, 15-16; FOIA January 2004b, 4.

4.3 The Regulation of OTC Derivatives Markets in the US

Evidence for leveraged interests at work can also be seen in the attempts to re-regulate financial markets and institutions since the global financial crisis. Exemplary in this regard are the international attempts to regulate the derivatives industry. The regulation of derivatives markets has been frequently explained through the activity of the small number of large banking institutions that dominate the trading of these products.[69] Existing IPE scholarship has highlighted how in the decade before the crisis lobbying and self-regulatory initiatives by groups such as the International Swaps and Derivatives Association (ISDA) combined in the growing proportion of derivatives traded among financial institutions, or "over the counter" (OTC), largely outside the international regulatory agenda.[70]

The crisis of 2008-2010 has marked a turning point in the regulation of OTC derivatives. Association of these products with high profile episodes of financial instability triggered a change of attitude in the international regulatory community, culminated in the agreement of the G20 leaders to force part of these markets onto regulated exchanges in order to boost standardization and transparency.[71] Leading the charge in seeking to constrain the extent of these measures were the banking groups that were the primary target of this international agreement.[72] Banking groups had in the past successfully lobbied the US Congress to exempt OTC derivatives markets from the purview of federal regulators with the Commodity Futures Modernization Act of 2000.[73] However, a decade later, the capacity of these institutions to influence to shape the different legislative proposals presented within Congress to regulate derivatives markets was weakened by the mobilization of a greater plurality of business groups.

In particular, the proposals to shift OTC markets onto regulated exchanges was supported by those very exchanges, since they stood to benefit from new business due to the regulatory changes.[74] The same proposal was also supported by different groups not directly targeted by the legislation, in particular farmers and other agricultural interests who use derivatives to hedge fluctuations in the price of agricultural products. As Clapp and Helleiner argue, US agricultural interests had been active in demanding more stringent regulations to constrain the speculative activities since the emergence of the agricultural futures markets in Chicago in the nineteenth century, but their activism and capacity to counteract the financial industry had decreased since the 1980s. Yet the politicization of derivatives since the financial crisis has meant that these agricultural interests were now again able to form a wide coalition with other firms from the food and energy sectors, as well as different consumer advocacy groups, NGOs, and different faith-based organizations in support of a tighter regulation of the sector, in particular of commodity derivatives – a situation depicted in quadrant B of Figure 5 below[75]

[69] See for instance Wigan 2010; Strange 1986.
[70] Tsingou 2006.
[71] G20 2009.
[72] Helleiner and Pagliari 2009
[73] Tett 2009
[74] Helleiner and Pagliari 2009
[75] Clapp and Helleiner 2012.
[75] Clapp and Helleiner 2012.

These groups were not the only non-target actors to respond, however. Since the fall of 2009, an ad hoc coalition of non-financial corporate actors such as Ford Motor, General Electric, Apple and Boeing, and trade associations such as the US Chamber of Commerce and the National Association of Manufacturers calling themselves the "Coalition for Derivatives End-Users" (henceforth: 'the Coalition') began organizing over derivatives regulation. The Coalition launched an extensive campaign to demand to Congress that the most onerous requirements imposed by the new regulation of derivatives, including the trading requirement, should not be extended to those corporate actors who used derivatives to reduce commercial risk and volatility in their normal business operations.[76] Despite the warnings from regulatory agencies regarding the risks that granting exemptions to corporate end-users from the trading requirements could create loopholes exploited by financial institutions, the Dodd-Frank Bill approved by the US Congress in July 2010 made special exemptions for how non-financial companies were to be treated, including the requirement to have their derivatives traded on regulated exchanges.

While Congress did not grant the same exemption to derivatives trades occurring among banks, they were nonetheless able to benefit by the mobilization of corporate end-users. Banks explicitly sought to align their interests with those of their corporate customers. The ISDA, for example, published research in June 2010 revealing that the legislation which was being finalized by the US Congress would cost US companies as much as $1 trillion in terms of capital requirements.[77] Indeed, the Congressional leaders who had been shepherding the legislation through Congress denounced the fact that "financial institutions [were] taking the end users in effect as hostages to get out from under some of these requirements".[78]

This strategy was successful, as corporate end-users joined the financial institutions in opposing different measures which targeted banks exclusively but which had knock-on effects for corporates, such as the requirement forcing dealers to spin off their swaps trading desks in independently capitalized entities,[79] or requirements limiting the capacity of banks to trade customized derivatives outside of regulated exchanges.[80] This mobilization granted credibility to the claims advanced by the financial industry regarding the impact of these legislative proposals on the broader economy, and ultimately played an important role in bringing Congress to water down or abandon different proposed measures.

Thus, while existing literature has emphasized the role of banks in shaping the regulation of derivatives markets, a greater plurality of actors has played an important role. While in the immediate post-crisis period commodity and agriculture interests have represented a source of organized opposition to the preferences of banks (a situation depicted in quadrant B below), banks have since being able to leverage the mobilization of corporate end-users to extract important concessions in other areas (a situation described in quadrant D in Figure 5 below).

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[76] Coalition for Derivatives End-Users 2009.
[77] ISDA 2010.
[78] Representative Barney Frank, cited by Damian Paletta, "Late Change Sparks Outcry Over Finance-Overhaul Bill", *Wall Street Journal*, 1 July 2010.
[79] Coalition for Derivatives End-Users, 2010.
[80] Coalition for Derivatives End-Users 2009.

Figure 5: Non-Target Group Mobilization in the Regulation of Derivatives

	Low mobilization of non-target groups	High mobilization of non-target groups
No Convergence of interests between targeted PFIGs and other groups	(A) *Pre-Crisis: Banks dominate*	(B) *Post-Crisis Derivatives Regulation: Agricultural groups and NGOs push for commodity derivatives regulation*
Convergence of interests between targeted PFIGs and other groups	(C)	(D) *Post-Crisis Derivatives Regulation: Coalition of Corporate End-Users push for Exemptions*

4.4 The Regulation of Hedge Funds in Europe

Hedge funds represent another important set of market actors that have occupied an important place the international regulatory agenda in the aftermath of the global financial crisis. In particular, at the London Summit in April 2009, the G20 leaders agreed in all hedge fund and/or their managers should be subject to direct regulatory requirements.[81] While the legislation introduced in the US to implement this international commitment has imposed only limited requirements, the Directive presented by the European Commission required hedge fund managers to comply with a more extensive set of prudential regulatory tools that have traditionally been imposed even on banks, in particular seeking to impose a hard-cap on the leverage employed by hedge funds, as well as some consumer protection measures mirroring those imposed upon mutual funds.[82]

The absence of any European agreement to regulate hedge funds before the crisis has been described in terms of the capacity of the powerful hedge fund industry and the banks that provide them with leverage to influence the position of the British government. In actuality there was always support for hedge fund regulation from powerful EU countries such as Germany, among both trade unions and management of many German companies who saw such financial activity as detrimental to the long-term investment strategies that characterize the Rheinish model of capitalism.[83] When the European Commission presented its Directive in 2008, these two sets of interests found themselves on two opposite sides of the debate. Labour organizations such as the European Trade Union Confederation supported the Directive,[84] while the opposition

[81] Helleiner and Pagliari 2009.
[82] European Commission 2009.
[83] Zimmermann 2009; see also Fioretos 2010.

to the Directive was spearheaded by the main group being targeted by the Directive, hedge fund managers, who organized through the Alternative Investment Management Association (AIMA).[85]

Such opposition to the Directive extended however to a much broader cast of actors than just hedge funds, the targets of the new regulation. Different national associations of pension funds such as the UK National Association of Pension Funds, its Dutch and Irish counterparts, the German Association of Company Pension Funds as well as the pan-EU European Federation for Retirement Provision entered the regulatory debate to publicly denounce the loss of returns for pension funds and the reduced investment choices posed by the Directive.[86] This mobilization reflected the growth over the last decade in the share of investments into speculative hedge funds from pension funds seeking higher returns. Notably, it was also strategically encouraged by the hedge fund community themselves. In the face of public hostility their lobbying strategy sought to highlight the downstream costs that the Directive would pose to pension funds across Europe, declaring "[i]f they suffer lower returns as a result of the Directive, it's not only Europe's pension funds but Europe's pensioners of both today and tomorrow who will suffer".[87] Even within the UK, where the vast majority of EU hedge funds are based, it wasn't simply hedge funds expressing concern, but unlikely groups such as charitable foundations, who lamented how "the Directive as currently drafted will significantly restrict our ability to generate funds to pursue our charitable missions and thus reduce our impact for public good".[88] Among these groups was the Church of England, which only one year before, at the height of the crisis had chastised short-sellers within the hedge fund industry as "bank robbers and asset strippers".[89]

This widespread mobilization of not only hedge funds but their many clients appears to have had a significant impact on the content of the Directive. Several amendments introduced in the text by the European Council and European Parliament have eliminated the most contentious aspects of the Directive opposed by the hedge fund industry and their many allies, starting from the cap on leverage and relaxed the requirements to appoint independent valuators and depositories. What this case helps to illustrate is the extent to which financial actors targeted for regulation such as hedge funds – often depicted as highly detached from the real economy – are able to rely on the mobilization of non-target groups. Indeed, in a period in which hedge funds and their high risky trading activities saw their political capital weakened by the crisis, the capacity to tie their interests to those of pension funds, institutional investors, and the flow of credit generally has played an important role in constraining the scope of the regulation, in a scenario consistent with quadrant D of Figure 6.

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[85] AIMA 2009a.
[85] AIMA 2009a.
[86] EFRP 2009; Kreijger, G. 'Dutch pension funds criticize EU hedge fund rules'. *Reuters*, 4 September 2009; 'EU-Regeln verteuern Spezialfonds', *Borsen-Zeitung*, 10 December 2009.
[87] AIMA 2009b.
[88] Jones, S. 'Hedge funds win Church of England blessing'. *Financial Times*, 6 October 2009.
[89] Gray, S. 'Archbishops attack profiteers and 'bank robbers' in City'. *The Guardian*, 25 September 2008.

Figure 6: Non-Target Groups mobilization in the regulation of Hedge Funds

	Low mobilization of non-target groups	High mobilization of non-target groups
No Convergence of interests between targeted PFIGs and other groups	(A) *Pre-Crisis: Banks dominate*	(B) *Opposition from Trade Unions and Management*
Convergence of interests between targeted PFIGs and other groups	(C)	(D) *Banks, Pension Funds, Institutional Investors and Charitable Foundations Support Hedge Funds*

Conclusion

The power of private financial industry groups in financial regulatory policymaking has become a central theme not only in the IPE literature, but also in many contemporary public policy debates. This article has sought to contribute to our understanding of this phenomenon by highlighting a factor that has been relatively neglected within the existing IPE literature: the capacity of financial industry groups to 'leverage' their influence over the policymaking process by forming coalitions. Through a quantitative analysis of an extensive new dataset on regulatory policy consultations at various levels of governance, and qualitative evidence drawn from actual instances of financial sector lobbying, we have highlighted two points of relevance for IPE scholarship. First, financial regulatory policymaking is characterized by a greater plurality of financial and non-financial groups than we find in other sectors. Second, this plurality can have important consequences: financial industry groups are able to 'leverage' their influence over the policymaking process by working alongside groups that are not the targets of regulation but which often share the preferences of the financial industry groups being targeted.

Our argument has two significant implications for the burgeoning scholarship on the IPE of financial regulation. The first of these implications is an ontological one, and concerns the uniqueness of the financial industry as a political actor. Just as Lindblom[90] highlighted the reasons why the business community is not just another special interest group, our analysis supports the notion that financial industry groups are not just another special interest group within the business community. However, what distinguishes the politics of financial services regulation from other areas of the global political economy is not simply the resources deployed

[90] Lindblom 1977.

by the financial industry, the nature of the institutional context, or the sheer size of the financial sector in the economy. Rather, our analysis points to the importance of the complex web of relations that derive from the location of the financial sector in the economy. Future scholarship needs to overcome the tendency of looking at financial industry groups in isolation and pay greater attention to understanding the links between finance and the rest of the economy and how this affects the financial regulatory policymaking process and its outcomes.

The second implication of our study concerns the extent of financial industry power. In one sense private sector coalitions may be regarded as simply an additional tool or mechanism that allows financial industry groups to dominate the regulatory policymaking process alongside the resources, institutional access, and structural conditions already favorably at their disposal. Yet, our qualitative evidence suggests that the plurality of interest groups in financial regulatory policymaking can *condition* the relative impact of the different facets of financial industry power described by the literature. In this sense, when a financial industry group is targeted for regulation, it may indeed benefit from supportive institutions such as well-established channels of access to policymakers, but other actors can also affect the way financial industry arguments are received, and even act as a countervailing force. The structural location of the financial industry may be important, yet rather than simply flowing automatically it may be at least partially dependent on the mobilization of non-target groups and subsequent coalitional dynamics. In sum, while the mobilization of non-target groups represents an additional source of influence for financial industry groups, in other cases the plurality of actors discussed in this article can turn into an Achilles' heel limiting the capacity of financial industry groups to dominate the policymaking process. Rather than regarding financial industry influence over regulatory policymaking as consistent and systematic, future scholarship needs to create room for greater variation in the influence of financial industry groups. A more pluralist approach to the study of this area of IPE allows for a more contingent understanding of financial industry influence, but also a more fruitful one.

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Appendix

Number of Consultations and Letters in Dataset

	Number of Policy Consultations	*Number of Responses Coded*
Total Response Letters in Dataset	308	14825
At National Level	176	7171
At Regional Level	83	5020
At International Level	34	1275
Policy Consultations With Specifically Target:		
Finance	146	6379
Agriculture	56	2982
Energy	42	2298
Telecommunications and Media	21	1301
Healthcare and Pharmaceuticals	39	1615

Notes: Response letters with more than one group signatory are counted as multiples. The last 5 columns don’t sum to total number of observations because some policy consultations have targets in more than one sector. In such cases, for random sampling we used only those data where there is no overlap.

Distribution of Actor Preferences in Finance and Non-Finance Consultations

	Sector Being Regulated					
	Finance			*Non-Finance*		
Actor Preferences	*Kind of Actor Responding*			*Kind of Actor Responding*		
	Targeted	SecCohab	Outsiders	Targeted	SecCohab	Outsiders
Solidarity	(37) 66%	(16) 60%	(25) 68%	(56) 66%	(2) 40%	(13) 43%
Neutral/Other Issues	(13) 23%	(7) 41%	(11) 30%	(10) 12%	(1) 20%	(14) 47%
Dissensus	(6) 11%	(4) 15%	(1) 3%	(19) 22%	(2) 40%	(3) 10%
Total Observations	56	27	37	85	5	30
Total Observations		120			120	

List of Governance Institutions in the Dataset

National Governance Bodies:
(All are US institutions unless otherwise noted)

Agricultural Marketing Service
Bureau of Land Management
Canada National Energy Board
Canadian Ad Hoc Working Group of Provincial Securities Administrators
Canadian Competition Bureau
Canadian Council of Insurance Regulation
Commodity Credit Corporation
Commodity Futures Trading Commission
Consumer Financial Protection Bureau
Environmental Protection Agency
Federal Deposit Insurance Corporation
Federal Energy Regulatory Commission
Federal Housing Finance Agency
Federal Oceanic and Atmospheric Administration
Federal Reserve System
Financial Stability and Oversight Council
Food and Drug Administration
Food Safety and Inspection Service
German Bundestag Committee for Economics and Technology
German Bundestag Committee for Health
German Bundestag Committee for the Environment
German Bundestag Finance Committee
Grain Inspection Packers and Stockyards Administration
Health Canada
Housing and Urban Development
Industry Canada
Northern Ireland Food Standards Agency
Office of the Comptroller of the Currency
Office of Thrift Supervision
Rural Business Cooperative Service
Scottish Food Standards Agency
Security and Exchange Commission
Small Business Administration
UK Department of Energy and Climate Change
UK Department of Health
UK Food Standards Agency
UK House of Lords Committee on Energy and Commerce
UK House of Lords European Union Committee
UK House of Lords Science and Technology Committee
UK Ofcom
US Treasury

Regional (European) Governance Bodies:

European Commission DG Agriculture and Rural Development
European Commission DG Competition
European Commission DG Energy
European Commission DG Enterprise and Industry
European Commission DG Fisheries
European Commission DG General Taxation and Customs
European Commission DG Health and Consumers
European Commission DG Internal Market
European Commission DG Information Society
European Commission Special Task force on Media and Publishing
European Commission Radio Policy Spectrum Group

Transnational Governance Bodies:

Basel Committee on Banking Supervision
Committee for Payments and Settlement Systems
International Organization of Securities Commissions
Joint Forum on Financial Conglomerates
Organization for Economic Cooperation and Development
UN Office of the Commissioner for Human Rights
World Health Organization

Summary Statistics for Variables used in Dataset

Variable Name	Source	Mean	StdDev	Min	Max
Categorical outcome of Respondent	Consultation Data	2.3516	1.9251	1	7
Finance is the target	Description of Policy Consultation	.05344	.50000	0	1
International Level Consultation	National consultations coded as 0, 1 otherwise	.42664	.49460	0	1
Structural Importance of Sector	OECD Structural Analysis of National Economies (STAN) database	.04734	.02763	.00035	.0832
Consultation Size	(Logged) Number of Respondents to a given Consultation	4.2432	1.1086	0	5.8141
Above Mean Salience	Reuters Newswire – see note below.	.44601	.49703	0	1
Std Above Mean Salience	Reuters Newswire. See note below. Coded as 1 when a sector is one standard deviation above the mean	.41129	.49202	0	1
Proportional Salience	Reuters Newswire. See note below. This is the raw percentage of media attention	.09491	.08115	.00097	.39645

Notes: We measured issue salience by dividing the number of articles on the regulation of one sector by the total number of articles on the subject of regulation in general, for a given year and level of governance. Above mean salience takes the mean value of these raw percentages for a given year and level of governance and asks whether the sector being regulated is above the mean or not. The other two salience variables are simple variations on this method.

Detailed Multinomial Logistic Regression Results

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
SECTORAL COHABITANTS						
Regulation Targets Finance	1.563***	1.430***	1.455***	1.434***	1.446***	1.371***
	(0.260)	(0.323)	(0.322)	(0.322)	(0.322)	(0.311)
International Consultation	-0.0373	-0.266	-0.267	-0.245	-0.233	-0.287
	(0.181)	(0.237)	(0.233)	(0.228)	(0.230)	(0.240)
Size of Consultation	-0.187***	-0.252***	-0.245***	-0.253***	-0.254***	-0.256***
	(0.065)	(0.083)	(0.086)	(0.083)	(0.083)	(0.083)
Structural Importance	-2.684	-3.259	-3.609	-3.767	-3.967	-7.028
	(5.503)	(6.372)	(6.280)	(6.562)	(6.545)	(6.794)
Post-Crisis			-0.105			
			(0.227)			
Above Average Issue Salience				0.0828		
				(0.255)		
Std Above Average Issue Salience					0.114	
					(0.257)	
Proportional Salience						2.186
						(1.704)
Constant	-1.026***	-0.542	-0.502	-0.561	-0.566	-0.514
	(0.350)	(0.429)	(0.434)	(0.432)	(0.433)	(0.422)
OUTSIDERS						
Regulation Targets Finance	1.349***	1.317**	1.315**	1.369**	1.402***	1.339**
	(0.285)	(0.558)	(0.529)	(0.544)	(0.541)	(0.589)
International Consultation	-0.651***	-1.006***	-1.007***	-0.920***	-0.868***	-1.031***
	(0.228)	(0.336)	(0.338)	(0.313)	(0.308)	(0.368)
Size of Consultation	0.125	0.105	0.104	0.0964	0.0898	0.0896
	(0.103)	(0.182)	(0.174)	(0.173)	(0.171)	(0.168)
Structural Importance	-0.791	6.048	6.118	3.925	3.546	0.609
	(4.636)	(6.711)	(6.860)	(6.867)	(6.885)	(9.503)
Post-Crisis			0.00514			
			(0.288)			
Above Average Issue Salience				0.462		
				(0.323)		
Std Above Average Issue Salience					0.558*	
					(0.334)	
Proportional Salience						2.514
						(2.669)
Constant	-2.166***	-2.136***	-2.135***	-2.267***	-2.287***	-2.046***
	(0.433)	(0.770)	(0.814)	(0.801)	(0.797)	(0.692)

TRADE UNIONS						
Regulation Targets Finance	2.017***	0.452	0.351	0.459	0.449	0.818
	(0.727)	(0.754)	(0.761)	(0.804)	(0.802)	(0.808)
International Consultation	0.249	-0.280	-0.320	-0.347	-0.332	-0.282
	(0.396)	(0.469)	(0.499)	(0.551)	(0.563)	(0.459)
Size of Consultation	-0.0296	-0.0775	-0.0941	-0.0751	-0.0747	-0.0464
	(0.223)	(0.168)	(0.174)	(0.165)	(0.165)	(0.160)
Structural Importance	-28.57**	-10.33	-8.880	-9.190	-9.556	1.773
	(12.215)	(11.177)	(11.195)	(11.182)	(11.128)	(12.610)
Post-Crisis			0.363			
			(0.474)			
Above Average Issue Salience				-0.266		
				(0.569)		
Std Above Average Issue Salience					-0.193	
					(0.586)	
Proportional Salience						-10.58***
						(3.593)
Constant	-3.503***	-3.423***	-3.596***	-3.358***	-3.378***	-3.520***
	(1.103)	(0.906)	(0.826)	(0.942)	(0.946)	(0.880)
CONSUMER GROUPS						
Regulation Targets Finance	1.108**	0.690	0.768	0.601	0.648	0.521
	(0.483)	(0.866)	(0.822)	(0.756)	(0.728)	(0.861)
International Consultation	-0.198	-0.183	-0.151	0.0146	0.0567	-0.181
	(0.303)	(0.463)	(0.481)	(0.547)	(0.559)	(0.464)
Size of Consultation	-0.230**	-0.187	-0.174	-0.188	-0.193	-0.179
	(0.117)	(0.137)	(0.136)	(0.140)	(0.140)	(0.141)
Structural Importance	-21.35**	-12.22	-13.47	-14.83	-15.08	-20.96*
	(9.123)	(15.485)	(14.427)	(12.986)	(12.868)	(12.517)
Post-Crisis			-0.304			
			(0.442)			
Above Average Issue Salience				0.680		
				(0.500)		
Std Above Average Issue Salience					0.764	
					(0.509)	
Proportional Salience						4.950
						(3.391)
Constant	-2.408***	-2.712***	-2.585***	-2.972***	-2.996***	-2.750***
	(0.602)	(0.804)	(0.775)	(0.954)	(0.958)	(0.823)
RESEARCH						
Regulation Targets	0.620**	1.336***	1.323***	1.474***	1.469***	1.257***

Finance						
	(0.276)	(0.457)	(0.469)	(0.493)	(0.502)	(0.454)
International Consultation	-0.432**	-0.211	-0.217	-0.292	-0.297	-0.213
	(0.215)	(0.303)	(0.292)	(0.283)	(0.283)	(0.302)
Size of Consultation	-0.108	-0.185	-0.187	-0.181	-0.179	-0.182
	(0.084)	(0.129)	(0.126)	(0.129)	(0.128)	(0.129)
Structural Importance	-17.17***	-32.78***	-32.56***	-32.98***	-33.22***	-35.26***
	(4.988)	(9.331)	(9.305)	(9.935)	(10.053)	(10.328)
Post-Crisis			0.0519			
			(0.251)			
Above Average Issue Salience				-0.340		
				(0.292)		
Std Above Average Issue Salience					-0.353	
					(0.298)	
Proportional Salience						1.786
						(2.437)
Constant	-1.385***	-0.997*	-1.019*	-0.898*	-0.899*	-1.018*
	(0.363)	(0.538)	(0.593)	(0.535)	(0.534)	(0.537)
NGOS						
Regulation Targets Finance	-0.247	0.0529	-0.0791	-0.0102	-0.0106	0.0398
	(0.343)	(0.589)	(0.595)	(0.596)	(0.589)	(0.618)
International Consultation	-0.363	-0.412	-0.450	-0.488	-0.474	-0.428
	(0.277)	(0.346)	(0.337)	(0.346)	(0.349)	(0.339)
Size of Consultation	-0.0771	0.0446	0.0213	0.0496	0.0496	0.0538
	(0.104)	(0.155)	(0.154)	(0.159)	(0.158)	(0.161)
Structural Importance	0.465	2.374	3.990	4.272	3.842	5.253
	(6.064)	(8.739)	(9.070)	(9.488)	(9.442)	(10.294)
Post-Crisis			0.408			
			(0.330)			
Above Average Issue Salience				-0.277		
				(0.379)		
Std Above Average Issue Salience					-0.209	
					(0.377)	
Proportional Salience						-1.451
						(3.907)
Constant	-1.193**	-1.867***	-2.043***	-1.820**	-1.835***	-1.911**
	(0.464)	(0.714)	(0.765)	(0.716)	(0.711)	(0.745)
N	14825	5000	5000	5000	5000	5000
Clusters	308.00	259.00	259.00	259.00	259.00	259.00
Log-likelihood	-19505.67	-6168.87	-6158.80	-6146.50	-6142.12	-6154.52

Notes: Standard errors in parentheses, * p<0.10, ** p<0.05, *** p<0.01