Business Conflict in International Policymaking:
Evidence from the Financial Sector

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Motivation

- Ontology: Heterogeneous firms in IPE
- Context: Regulatory capture in finance
  - Evidence that Business Conflict (BC) moderates this
- Theory:
  - Neo-Pluralism (‘Countervailing groups’)
  - NeoMarxian (‘Fractionalization of Capital’)
- Empirical Evidence?...
Empirical Studies of Business Conflict in IPE

- **Pharmaceuticals, IP** (Sell and Prakash 2004; Roemer-Mahler 2012)
- **Environment Falkner** (Clapp 2008; Falkner 2007; Falkner 2012)
- **Trade** (everybody?)
- **Finance** (Lall 2012; MaCartney 2008; Quaglia 2008; Pagliari and Young 2013)
Business Conflict: So What?

• Business conflict is significant because:

  • Pluralist claim
    – interests ‘countervail’ one another

  • Signaling claim
    – sends conflicting or ‘muddy’ signals to policymakers, weakening prob. of capture
Business Conflict in Financial Governance

- Insurance Industry vs. Banks (Pagliari and Young 2013)

- Small vs. Big Banks (Lall 2012; Mügge 2009)

- Banks from Different Countries (MaCartney 2008; Quaglia 2008)

- TN Associations weaken BC (Porter and McKeen-Edwards 2013)
Hypotheses

• Null H:
  – Business actors have consistently similar preferences on the same policy

• H: Institutional Embeddedness
  – Obs. Implication1: nat → int should mean >BC
  – Obs. Implication2: geography/institutions predicts BC

• H: Associability
  – Obs. Implication: associations moderate BC

• H: Sectoral difference
  – Obs. Implication: sectoral diversity predicts BC

• H: Size Matters
  – Obs. Implication: small firms ≠ large firms
Test of Institutional Embeddedness Hypothesis: Big Global Policy: G-SIFIs

- Automated text analysis of lobbying letters (Klüwer 2009)
- Geography Drives Divergent Preferences on the Same Global Policy
Test of Institutional Embeddedness Hypothesis:
Big Global Policy: Basel III Accord

- How often do interest groups from different countries disagree on the overall shape?
  – Very rarely!
- How often do interest groups from different countries disagree on specific points of emphasis?
  – Often!
More ‘Big Picture’ Data

• Lobbying letters to regulatory agencies at national, regional (EU), TN levels

• Code preferences along 3 point scale (Yackee and Yackee 2004)

• Measure preference divergence between groups

• These data drawn on joint project with Stefano Pagliari
Financial Regulation is Different
Evidence for Institutional Embeddedness Hypothesis

Assumption = Institutional Diversity is Increasing
• We can measure the level of disagreement between the regulated industry and other businesses who are also engaged in lobbying.
## OLS Regression: Predicting Preference Disagreement

<table>
<thead>
<tr>
<th></th>
<th>Model 1 (1)</th>
<th>Model 2 (2)</th>
<th>Model 3 (3)</th>
<th>Model 4 (4)</th>
<th>Model 5 (5)</th>
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<td><strong>DV</strong></td>
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<td>Level of Governance</td>
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<td>Post-Crisis</td>
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<td>Constant</td>
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<td><strong>R²</strong></td>
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<td>0.078</td>
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Standard errors in parentheses, * p<0.1, ** p<0.05, *** p<0.01

...Support for association hypothesis...
Effect of High Salience

Effect of Being an Association
In Conclusion

• Under What conditions Does Business Conflict Emerge?

• H: Institutional Embeddedness ✓
• H: Associability ✓ ✓
• H: Sectoral difference ✓ ✗
• H: Size Matters ✓ ✗
  – Matching savings banks, cooperatives with other (large) respondents
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• Going Forward
  – Relational data...
  – Corporate networks
  – When does pref. divergence lead to open dispute?