

## **Convergence of Interests:**

The effect of individual shareholding on the interests of labor in advanced economies

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### **Abstract**

Traditional class based theories of interest groups in the field of comparative and international political economy have drawn a hard line between the interests of owners of capital and the interests of labor. Yet over the past 30 years in Anglo-Saxon countries in particular, the labor class has become highly invested in the capital markets through the privatization of pension systems and other incentives for market based savings. While this literature has offered suggestions of how this may have shaped individual preferences, the literature to date lacks empirical tests of whether preference convergence has actually occurred through such a mechanism. In this paper, we test whether the increased holding of tradable financial assets has effected citizen support for financial regulatory policies and the use of public funds for financial sector bailouts. Using three separate datasets on the US population, we find evidence that stock ownership in particular is associated with support for more stringent financial regulatory policy, while support for bailouts has more mixed results.

*Preliminary draft: Please do not cite without permission. Prepared for the 9<sup>th</sup> Annual Meeting of the International Political Economy Society, Washington DC, November 14-15<sup>th</sup>.*

## 1. Introduction

In September 2008, following the decision to let the bank Lehman Brothers collapse and faced with the possibility of a major collapse of the US financial system, the US Congress voted on a bill proposed by US Treasury Secretary Hank Paulson, the Trouble Relief Asset Programme (TARP), which would help to bailout Wall Street banks. The response to the bill, which was woefully underspecified, was negative, both from the media and the legislators. The bill was discussed by the media in terms related to the differentiation between “Main Street” and “Wall Street,” with the conception that it was against the interests of the people (Main Street) to bail out financial firms (Wall Street) using public funds. The Congress, creating, listening to and repeating this discourse, proceeded to vote the bill down. The following day, the Dow Jones industrial average lost 774 points (7% of its value), the worst point decline in US history (Hulse & Herszenhorn, 2008).

What is surprising about this story is not the stock market reaction to the lack of support for the TARP, but rather what happened next. Overwhelmed by emails from constituents about the costs of the failed bailout vote, and shown polling evidence that people generally disagreed with the negative framing that had proceeded the vote, the Congress made a dramatic *volta face*: just under one week later, they voted in favor of a much longer TARP bill designed to do the exact same thing: save the financial industry at public expense.

We begin this paper with that story because it encapsulates the dynamic we are interested in investigating: to what extent do people have interests which are antithetical to the interests of finance – as the Main Street vs. Wall Street framing would have it? Or to what extent do people see their wellbeing tied to the wellbeing of the financial markets, and therefore are their interests more closely aligned to those of financial actors? In theoretical terms, we are interested in determining whether the traditional method of viewing preferences in class based terms, with capital and labor at opposite ends of the dichotomy, and therefore in conflict, has changed as a result of the fact that the individuals have become highly invested in the capital markets.

The hypothesis that the preferences of “ordinary workers”, that is individuals whose primary source of income is not linked to the financial industry, have begun to shift and align with the interests of stakeholders more closely related to the financial markets is consistent with the themes highlighted in the literature on “financialization”. This term includes a wide group of scholars that over the last decade have described and accounted for the growing importance of finance in industrialized economies. In particular, different authors within this literature have highlighted the growing importance of financial assets in people’s personal wealth (and in their estimations of

their own well-being), as a result of the privatization of pension in favor of stock market based 401Ks, and the growing popularity of investing in securitized instruments.

While this literature has detailed the greater exposure of households to the financial markets, the implications of this ‘financialization of everyday life’ over the preferences of people / workers outside of the financial industry has not been subject to systematic scrutiny. This paper aims to fill this gap by exploring empirically to what extent the greater holding of financial securities in the major industrialized economies has shaped the preferences of individuals towards financial policies.

The paper is structured as follows. First we review the existing literature on class-based cleavages in economic policies, with a particular attention to the implications that the “financialization of everyday life” has over the preferences of the individuals. Building upon this literature, we propose a plausible causal mechanism through which individual interests may have converged with those of finance, shifting the preferences of workers outside of the financial industry on issues related to finance, and decreasing the difference between “Main Street” and “Wall Street”.

Third, we test this hypothesis in a series of statistical tests designed to see whether the preferences of individuals in the US who are more exposed to finance (through their own personal financial investments) show greater support for positions traditionally associated with the interests of finance capital in the case of policies targeting the financial industry (bank regulation and bank bailouts). We use three different datasets to test two hypotheses: the Cooperative Congressional Elections Survey (CCES), a Pew research poll that we match with financial asset ownership data, and a pilot survey of our own design. Our results show consistent support for stock ownership in particular as being associated with less support for more stringent financial regulation. Support for bailouts shows more mixed results, but supportive evidence in the CCES survey data.

## **2. Class based conflict and economic policy**

The idea that the primary conflict over economic policies runs along class based lines features strongly in the contemporary literature in political economy. While the notion of “class” as the main conflict line within society has a long tradition within the Marxist literature, a number of studies within the literature in international and comparative political economy coming from non-Marxist analytical perspectives have been intensely interested in understanding the role that class-based cleavages play in structuring the lines of conflict over economic policies.

This issue of class conflicts has received particular attention in recent decades as a result of transformation of national politics by the forces of financial and trade globalization. In particular, a number of scholars have investigated how class conflicts

may have been exacerbated rather than mitigated as a result of globalization. As Rodrik puts it, globalization “is exposing a deep fault line between groups that have the skills and mobility to flourish in global markets and those who either don’t have these advantages or perceive the expansion of unregulated markets as inimical to social stability and deeply held norms” (Rodrik, 1997, p. 2). A number of studies have built upon theory of international trade such as the Heckscher-Ohlin / Stoper-Samuelson model (Stolper & Samuelson, 1941) to understand the distributional consequences of greater economic integration over factors of production, such as labor, capital, and land. They argue that in developed countries, global economic integration should bring gains for holders of capital, and losses to labor, because developed countries are at a disadvantage against their labor rich trading partners in the developing world (for a critique, see Rudra, 2002). Different authors have drawn on the Heckscher-Olin theory to theorize how class-based cleavages will characterize debates over a number of economic policies. Rogowski has argued that coalitions in favor of free trade organize along the lines of class (Rogowski, 1990). Similarly, other authors have drawn on the same framework to theorize how class-based cleavages should also characterize debates over other the welfare-state: as globalization increases competition, there should be an increased demand for welfare provision from members of the working class who are damaged by heightened foreign competition (Garrett & Mitchell, 2001; Garrett, 1998; Hicks & Zorn, 2005; Hicks, 1992). Class-based preferences have also been utilized to characterize debate over in the area of immigration policies, where individual skill level have been presented as a key determinant of preferences for immigration in the US (Scheve & Slaughter, 2001), as well as across countries with different income level (Mayda, 2006).

Central to our purposes, distinctions of class have also been used to explain the development of financial policies. Cohen, for example claims that “the globalization of finance obviously has increased pressures for general policy convergence towards an agenda set by investors” (Cohen, 1996). This insight has been used to explain a variety of developments over the last few decades. The delegation of monetary policy authority towards independent central banks across advanced industrialized economies and beyond over the last few decades has been interpreted as reflecting the preferences of capital-owners concerned about the inflationary impact of activist monetary policy vis-à-vis the preferences of workers for an institution capable to more swiftly respond to economic downturn and rising unemployment (W. R. Clark & Arel-Bundock, 2013; Posen, 1995). In the area of financial regulatory reforms, both popular discussion and the academic literature which attempts to explain the wave of deregulation in the US and elsewhere in the years before the financial crisis has focused on the disproportionate lobbying and structural power of “Wall Street”, while hurting the preferences for a more resilient financial system supported by the average worker, represented by “Main Street” (Johnson & Kwak, 2010).

At the same time, as Korpi and Palme (2003) note, emphasis on the importance of class in social science came in waves throughout the twentieth century, with researchers positing a decline in the salience of class in the immediate post war era, and again in the 1990s. While these authors conclude that class continues to be a relevant category in Western nations, a number of factors have been identified within the literature as blurring the capacity of class-based divisions to explain preferences over a number of economic areas. These range from ideological factors and a declining support for anti-capitalist ideology among voters (Quinn & Toyoda, 2007), to formal and informal institutional factors, such as the impact that the degree of unionization and the characteristics of labor market institutions have in conditioning the extent to which workers will take on a broader ‘class-based’ perspective (Ahlquist, Clayton, & Levi, n.d.).

Most importantly, different works have theorized how a blurring of traditional class-based cleavages may have occurred as a result of transformations in the structure of industrialized economies. While this kind of class-based theories derived from standard trade theory were developed to provide insights into post-war economies where the manufacturing sector played a key role, transformation in the developed countries and the greater importance of the service sector and skill-intensive production have transformed the risk that individual workers face in the labor market and the preferences in a way that transcend class-based conflicts (Ansell, 2014; Soskice & Iversen, 2001). From this perspective, as the specificity of skills reduces the capacity of workers to move across different economic sectors, the preferences of workers tend frequently to converge with the preferences of the holders of capita along sectoral lines, along the lines of the Ricardo-Viner model of trade (Frieden, 1991).

More recently, scholars have questioned the focus of this literature on the labor market as determinant of individual preferences over economic policies and suggested that preferences can also be shaped by their ownership of assets that are not directly related to current employment (Ansell, 2012). Ansell claims that there has been a shift in the structure of the political economies of advanced industrial countries from a model where citizens rely on wage employment for income and their preferences are shaped by their labor market status (income, occupational class, or risk of unemployment) towards an “Asset Dominance” model where “macroeconomic policies (or shocks) have their greatest impact on the price level and volatility of assets like equities and housing - in other words not on citizens’ income but on their wealth” (Ansell, 2012). Along these lines, different authors have emphasized the importance of housing as an asset. For instance, Scheve and Slaughter have examined the impact of home ownership in determining trade-policy preferences, highlighting the impact that home ownership has over modifying class-based preferences through a consideration of trade’s inter-temporal income effect (Scheve & Slaughter, 1999). Similarly, Ansell (2014) has argued that homeownership has an impact over individual social policy preferences, as individuals

facing house price appreciation will consider their house as a form of self-supplied private insurance against job and income loss and become less supportive of publicly provided social insurance.

Housing is not the only asset whose ownership in advanced industrial economies may be presented as causing a divergence between the individual wealth of workers and their labor market income. A similar case can be made for the rising influence of capital markets and finance more generally in industrialized economies, and the greater ownership of financial assets by individuals. The next section will explore the contribution towards understanding this issue coming from the literature on “financialization of everyday life”.

### **3. The Financialization of Everyday Life and the Convergence of Preferences**

‘Financialization’ is the term that many of authors across different social sciences such as economics, political economy, economic sociology, and economic geography and other related disciplines have used ‘to make empirical and theoretical sense of the tempestuous rise of finance in contemporary capitalism’ (Engelen, 2008).

A variety of trends have been associated with this term, progressively stretching the scope of empirical observations associated with this concept to the point of breakdown. For some authors, financialization is represented by the greater imbalance between finance and other sectors of the economy as a result of the massive growth in the banking and financial sectors relative to the real economy over the last few decades (Arrighi, 1994; Assa, 2012; Epstein & Power, 2002; Krippner, 2005). A second trend within this literature has instead referred to the term ‘financialization’ to highlight changes in the behavior of non-financial firms, such as the growth of financial assets on the balance sheets of non-financial corporations during the post-war period (Crotty, 2002; Stockhammer, 2004), the growing tendency of non-financial corporations to generate profits through financial channels rather than through the production of goods and services (Krippner, 2005), as well as the greater influence that financial considerations have come to play in the governance of large industrial corporations and in the evaluation of corporate performance (Cutler & Waive, 2010; Lazonick & O’Sullivan, 2000). These authors have presented the differences between financial and non-financial firms as increasingly unclear. As Krippner argues, ‘Non-financial corporations are beginning to resemble financial corporations – in some cases, closely’ (Krippner 2005).

A third stream in the financialization literature has analyzed how the rise of finance has increasingly had a direct effect on individuals and households, in what scholars have called the “financialization of everyday life” (Langley, 2008b; Martin, 2002). Developments in the investment and borrowing patterns of individuals and

households have served to integrate these actors much deeper into global capital markets (Montgomerie, 2009). On the borrowing side, financial developments such as the diffusion of credit cards and the expansion of securitized products bundling together of “stream of future repayments arising from everyday borrowing” (Langley, 2008a) have made it possible for household to expand their access to credit but also linked their borrowing with global capital markets (Aalbers, 2008; Erturk, Froud, Johal, Leaver, & Williams, 2007; Langley, 2008a; Montgomerie, 2009). For instance, while in the past the risks associated with homeownership were primarily linked to economic fluctuations, the rise of the securitization of mortgages and the worldwide expansion of the secondary markets for asset-backed securities have been presented as creating dynamics where “the fate of homeowners is increasingly tied to the fate of financial markets” (Aalbers, 2008; see also Schwartz, 2009).

Households have become increasingly exposed to capital markets not only as borrowers, but also as investors. While in the past the investment patterns of most middle-class households and individuals had been limited to what Langley describes as the “thrifty saving practices of making deposits in commercial bank accounts and purchasing government bonds” (Langley, 2007), a series of transformations have been described as leaving households to be more exposed to financial assets. Technological developments such as the creation of internet trading platforms (Langley, 2007); mass-marketing campaigns by financial services providers (Harmes, 2001); the growth of books on ‘how-to-invest’ and personal financial reporting in the popular media and in newspapers directed to a mainstream audience (Aitken, 2005; G. Clark, Thrift, & Tickell, 2004); changes in government policies such as tax breaks for investment into mutual funds; and programs to foster financial literacy since the early age (G. Clark et al., 2004; Erturk et al., 2007; Harmes, 2001) have been presented as bringing forward what Adam Harmes defined the emergence of “mass investment culture” (Harmes, 2001) in Anglo-American countries.

Reforms in the pension systems have also been frequently described as central in the transformation of households into investors. The term “privatization of pension” has come to encompass a variety of changes in the pension systems of OECD countries, transition economies, as well as developing countries, to encourage individuals to save for their own retirement by placing their money in retirement accounts managed by private sector firms who invested in the financial markets to pay for future benefits (Brooks, 2005, 2007; Ebbinghaus, 2011; Orenstein, 2008, 2013). This trend was common across countries with very different pre-existing pension systems and occurred as a result of different policy choices to limit the share of total retirement income that is provided through state-based pension arrangements (Orenstein, 2013) such as cut backs on state provision for old-age retirement such as those introduced in the US, the automatic enrolment of worker in employer-sponsored private pension plans such as in the UK, or

the introduction of tax incentives for joining individual private pension schemes combined with cuts in the public pension systems such as those introduced by countries such as France, Germany, Spain, Denmark and Portugal (Naczyk & Palier, 2013; Orenstein, 2013; Queisser, Whitehouse, & Whiteford, 2007). While in the former “defined benefit” pension model the state or the employer guarantee a given retirement income based on final salary or the period of service, in “defined contribution” plans the retirement income remains contingent upon the performance of financial markets during the years leading to retirement.

In sum, the literature on financialization demonstrates how developments both in the pattern of borrowing and investing of middle-class households and transformation in the welfare states have increasingly left individuals exposed to fluctuations in the financial markets rather than simply in the real economy. From the perspectives of the literature reviewed in this section, the stock market has not only become “a king of barometer for the economy as a whole” (Krippner, 2005), but also a barometer for the wellbeing of middle-class households who are described within the literature as increasingly dependent on the ups and downs of financial markets.

What are the implications of this financialization of everyday life for understanding the lines of conflict over economic policies? Cultural political economists have been most likely to see financialization as transformative for the preferences of the individuals that find themselves increasingly exposed to the vagaries of the financial markets. Langley has argued that the privatizations of pensions does not “simply involve transferring investment risks to the individual,” but entails a transformation in the perception of individuals towards financial risk and the “summoning up of the investor subjects” (Langley, 2006). While in traditional welfare states financial risk was framed as “possible hindrance, danger, or loss to be shared collectively” (Langley, 2007), as a result of the financialization of everyday life individuals are increasingly called upon managing the risk for their retirement as well as other life-events (education, avoiding risk of unemployment or decline in house prices) (Erturk et al., 2007) and to assume the role of “active investors, or speculators on the stock exchange” seeking an adequate “return on investment” from their pension contributions (Harmes, 2001).

Other authors have also theorized that as ‘investor practices’ became embedded in the everyday lives of middle-class households and these actors become “drawn into a concern with the day-to-day workings of the market from having to track their own portfolios” (Harmes, 2001), this could have an impact over their identities and preferences. Harmes notes how the rise of mutual fund ownership significantly increased the awareness of the man in the street regarding the development of the stock market. He speculates that the rise of the mutual-fund industry and the emergence of a mass investment culture “may be creating the perception of a growing link between the interests of workers and finance capital” (Harmes, 2001). More specifically, Harmes

hypothesize that “by transforming tens of millions from passive savers into ‘active’ investors” whose personal wealth is tied to financial markets, the financialization of the economy is vastly expanding the constituency in favour of neoliberal policies “such as capital mobility, price stability, low capital-gains tax and shareholder value” (Harmes, 2001) which are traditionally associated with the holders of capital. Along the same lines, Matthew Watson has argued that the privatization of pension provision has contributed to the emergence of an important constituency backing the continuation of financialization and punishing political parties which do not protect asset wealth (Watson, 2008).

The literature has also highlighted how the policies supported by households who identify themselves as investors are frequently at odds with their own self-interest deriving from their position in the labor market. For instance, Harmes argues that the interests of small fundholders as investors and the “neoliberal policies which might benefit them in their role as investors will adversely affect them as workers” (Harmes, 2001). A number of critical scholars have discussed how pension funds and mutual funds in which middle-class citizens are invested are frequently at the forefront of demands for corporations to increase dividends and raise share prices in the name of the investor and financial market efficiency, thus contributing to uncertainty about employment. As Langley puts it, “what we gain as workers we lose as investors, and vice versa, and the performance of investment continues to stand in tension with the practices of work” (Langley, 2007). From this perspective, it is therefore not clear whether their preferences that derive from the state of individuals as “investors” will trump the material interests that derive from their status as “workers”.

While most scholars investigating the “financialization of everyday life” have focused on theorizing implications for the economic security and identify of individuals in industrialized economies, these works have fallen short of testing the implications of their arguments in a systematic way. Whether the convergence of preferences has occurred or not remains primarily an empirical puzzle. The next section will seek to address this gap in the academic literature and find more systematic evidence of this trend.

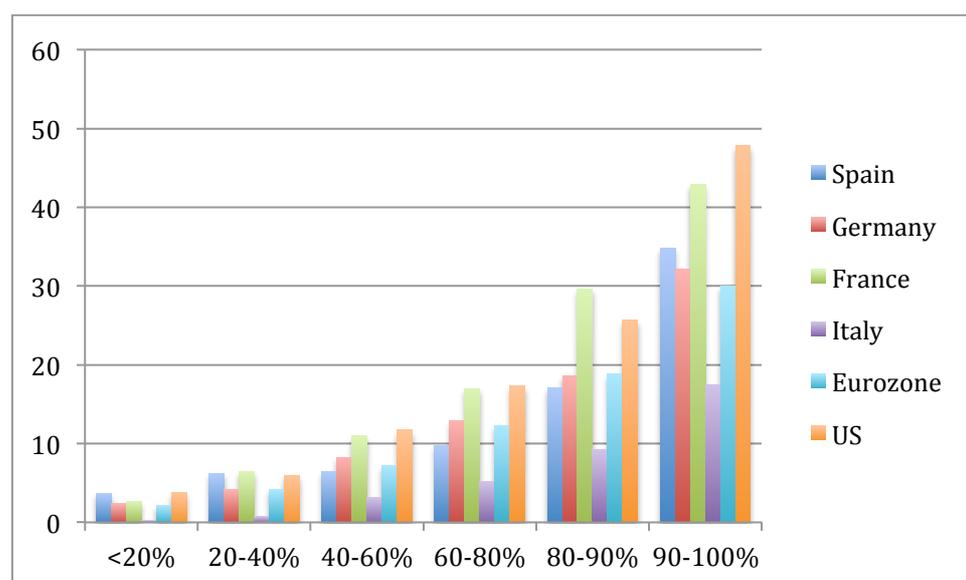
#### **4. Financialization and preferences about financial policies during the Great Recession**

In order to address this gap in the literature, this paper analyses preferences of US households financial policies targeting the financial sector. The choice of the US as our primary focus of analysis reflects the fact that this represents the starting point for most analysis on financialization. Different authors such as Langley have argued that it is only in Anglo-American societies that it is reasonable to speak of ‘financialization of daily life’ (Langley, 2004). For others instead, the experience of Anglo-Saxon countries

has been presented by different authors as the frontrunner of a more general universal trend whose extent varies across different industrialized economies (Palley, 2007), including in countries characterized by alternative ‘varieties of capitalism’ (Engelen, 2003).

The analysis of the distribution of share holding across the income distribution in Figure 1 suggests how financialization in the US is both more advanced than in the Eurozone as well as less concentrated in upper income groups.<sup>1</sup>

**Figure 1: Percent of households who directly own shares in publicly traded companies, by income distribution. Selected economies, 2012-13**



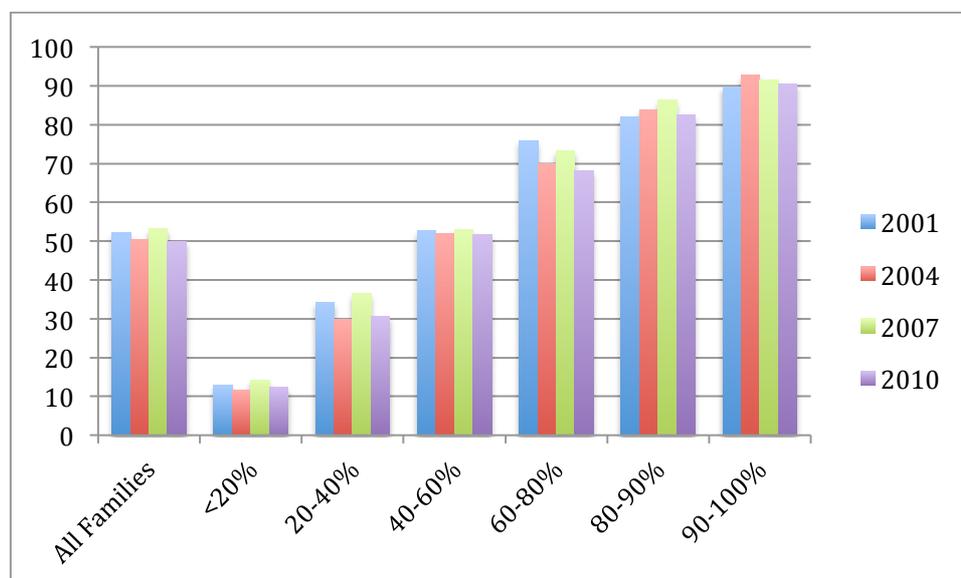
Direct stock ownership however presents only a narrow range of financial assets. As argued above, a central trend in the financialization literature is the extent to which US citizens hold their pensions in investment linked accounts, or 401(k)s, which remains a key element that differentiate the degree of financialization of households in the US and Eurozone. In fact, 26.1% of households appear to be exposed to the stock market only through this channel.

When we add all these different types of financial assets, household financialization in the US is not a “niche” phenomenon where the majority of the ownership in financial assets remained limited primarily to a small percentage of citizens in the upper income

<sup>1</sup> The closest country to the US from our sample is France, for example, a much lower percentage of upper income families own shares directly -- 43% of families in the 90th centile -- and this drops off dramatically as income declines: only 17% of households in the 60-80th centiles have stock, and 11% in the median income group. While the overall percentage of households directly invested in stocks or mutual funds in the US and Eurozone is similar, significant differences remain within the Eurozone, with countries such as Germany and the Netherlands significantly more financialized than countries such as Italy and Greece. Moreover, significant differences remain across Eurozone countries regarding the specific instruments held by households. For instance, while Italian households are more likely to own bonds (nearly 15% of Italian households own bonds, by far the largest investment category), a Dutch household is more likely to be invested in mutual funds (nearly 18% of households own funds, again the largest category of investment). And in several countries, like Cyprus and Finland, households own shares (35% and 22%, respectively) in higher proportions.

distribution (Erturk et al., 2007; Hager, 2013; Montgomerie, 2009). While there remains a divergence between individuals in the upper income distribution, where direct and indirect stock ownership is extremely prevalent (see Figure 2), and lower income groups, it is not fair to characterize financialization as a niche phenomenon since around 50% of all households directly or indirectly own stock<sup>2</sup>.

Figure 2: Percent of US households who directly or indirectly own stock, by income over time<sup>3</sup>



In a nutshell, while the financialization of everyday life remains a highly uneven development not only across different countries, but also within different income strata of society, the US represents an ideal playground to observe the implications of this phenomenon over individual preferences since this is the context where it is both deeper and more widespread within the population.

Within the context of the US, we chose to observe the convergence between the preferences of households and finance by focusing on policies directly targeting the financial sector. A number of studies have highlighted the limited capacity of the median voter to understand where their self-interest lie, and this problem may be particularly acute in the area of finance, where literacy remains low. A number of financial literacy surveys conducted by a different countries on their adult population “suggest that people are ill-equipped to take complex financial decisions, do not plan ahead sufficiently, and have a poor understanding of investment concepts like risk and diversification” (Lewis & Messy, 2012). From this perspective, it is possible to expect that “financialized households” are most likely to be recognize the impact of policies over by their own roles as investors in the economy when expressing preferences towards policies directly

<sup>2</sup> Figure 2 demonstrates that more than 80% of people in the 80-90<sup>th</sup> income decile, and more than 90% in the top decile own stock. In the lower income groups, 12.5% of people in the bottom 20% of the income distribution, and more than 30% in the 20-40% income distribution own

<sup>3</sup> Source: US Federal Reserve Bulletin, 2012

targeting the financial industry than when expressing broader preferences in a more complex, multi-faceted setting, such as macroeconomic policies. From this perspective, we focus on two key sets of financial policies directly targeting the financial industry: 1) attempts at regulating financial firms, and 2) the bailouts of financial firms.

Both types of policy intervention creates a dilemma from the perspective of ‘financialized workers’. On the one hand workers would benefit from more stringent regulatory policies capable to mitigate the recurrence of financial crises and the costs that these pose to the broader economy in terms of prolonged recessions and unemployment (Reinhart & Rogoff, 2009). On the other hand, the same individuals when heavily invested in financial assets may have an interest in opposing more stringent regulatory policies that may limit their opportunities to invest in the financial markets and the profitability of their investments in the short term. This dilemma is well exemplified by the alignment of different organized groups directly representing different interests of “workers” during the regulatory response to the global financial crisis. In this context, pension funds managing the savings of middle-class households as investors have in a number of cases supported financial regulatory policies that stand in contrast with those supported by trade unions, representing the interests of workers (Pagliari & Young, 2013). The impact of the financialization of everyday life over preferences towards financial regulation can be formalized in the following hypothesis:

*Hypothesis 1:* We expect that the support for more financial regulatory policies will be lower among those individuals with higher levels of individual investment in tradable financial assets.

A similar dilemma can be theorized in the context of bailouts. While individual workers in the same industry as the one being bailed out will have an incentive to support its bailout in order to ensure the security of their income, workers in other sectors who expect to pay the most for bailouts as taxpayers will be the least supportive (Smith, 2013). Given the significant costs that recent bank bailouts have created for sovereigns and ultimately taxpayers, we can expect individuals to be mostly opposed to the bailouts of financial institutions.

However, the ownership of financial assets could alter these preferences, increasing individuals’ support for bailouts due to their interest in financial stability. Indeed, the contagion from a failed bailout on the stock market is particularly relevant in the case of large or highly interconnected financial institutions, as the example of Lehman Brothers has demonstrated. This point is well acknowledged by Smith, who argues that “voters with significant stock holdings are likely to benefit more from bailouts than individuals with smaller or nonexistent holdings” (Smith, 2013). As the anecdote regarding the Trouble Asset Relief Program presented in the introduction

suggests, bank bailouts during the financial crisis have frequently been justified by the widespread externalities that a failure to act would have over workers, rather than simply the banks being bailed out. Similar arguments have also been utilized to justify previous bailouts, such as the bailout of Mexico by the IMF in 1995, Harmes argues that financial firms were able to appeal to small investors - US citizens who held mutual funds - to justify their interest in bailing out Mexico. Harmes cites in particular an article from Time magazine, arguing that “At risk in [Mexico] were not only US banks and giant investment firms but mutual funds held by tens of millions of little-guy investors who bet their savings on double-digit yields in emerging markets like Mexico. ‘This wasn’t about bailing out Wall Street,’ a congressional staff member said of [the rescue package], ‘but about mutual and pension funds and that means average Americans’” (Harmes, 2001). Indeed, the hypothesis linking support for bailouts with the level of individual investment in the stock market finds some moderate empirical support in the analysis conducted by Smith (2013), and Bechtel, Hainmueller and Margalit, who find that the support for international bailouts is higher among individuals who are invested in the stock market (Bechtel, Hainmueller, & Margalit, n.d.).

The impact of the financialization of everyday life over preferences towards the bailout of financial institutions can be formalized in the following hypothesis:

*Hypothesis 2:* We expect that the support for the bailout of financial institutions will be higher among those individuals with higher levels of individual investment in tradable financial assets.

## **5. Empirical Tests**

### *Hypothesis Test Using CCES Data*

In order to investigate these two hypotheses regarding the impact of asset ownership over the support for post-crisis policies targeting the financial sector in the US, our first test relies on the 2010 Cooperative Congressional Election Study (CCES) survey. With a representative sample of the US population and a large number of respondents across a wide diversity of demographic groups, the CCES gives an excellent glimpse into US citizens’ attitudes toward politics and public policy (see Ansolabehere 2012). Moreover, two different kinds of questions were asked in this survey that relate directly to support for financial reform efforts on the agenda at the time.

In addition to a battery of political and demographic questions, the 2010 CCES common content survey asked 55,400 individuals a battery of questions about levels of support for various bills that had recently been voted on at the time. Specifically,

respondents were asked “Congress considered many important bills over the past two years. For each of the following tell us whether you support or oppose the legislation in principle.” Two questions were asked that are particularly relevant to our analysis. The first was that respondents were asked to indicate their support or opposition to “Financial Reform Bill” (what became known as the Dodd-Frank Act, the most important post-crisis financial regulatory reform legislation in the US) with the description that it “Protects consumers against abusive lending. Regulates high risk investments known as derivatives. Allows governments to shut down failing financial institutions”. A second question also asked about financial policy in that respondents were asked to indicate their support or opposition in principle to the “Troubled Asset Relief Program” with the description that this involved “\$700 billion loans to banks to stabilize finance.”

We ran logistic regression models using first individual’s support for ‘Financial Reform Bill’ (read: Dodd-Frank) and then support for the “Troubled Asset Relief Program” as the outcome. Our main explanatory variable of interest is a simple dummy variable that was included in the 2010 CCES and which has a close bearing on our interest in financial asset ownership: whether the respondent owned stock.

Financial regulatory reform was highly partisan at the time of the survey, which necessitates that we control for partisan effects when trying to estimate the effect of stock ownership on support for Dodd-Frank. As such, the different regressions reported in Table 1 report different models which vary according to how they control for the self-declared form of partisanship expressed by each respondent. As a pre-processing step before analysis we used coarsened exact matching to improve balance in these data for groups that do not own stock and those that do (Iacus, King, & Porro, 2011). While matching techniques such as this often risk pruning observations and introduce tradeoffs as a result (King, Lucas, & Nielsen, 2014), the CCES data is large enough that this is less likely to be a significant concern. An initial test for imbalance revealed that it could be reduced significantly through coarsened exact matching – we reduced the alpha from .65 to less than .001. Because financial asset ownership is highly correlated with income levels, in addition to matching on partisan variables and levels of news/policy attentiveness, we matched on income using dummies for each of the income categories (14) available. In models 2-4 below we only include income categories which indicate the respondent makes 80K/year or less, in order to increase the fit between the empirical test and the theoretical literature, which is focused on working and middle class people, and not the wealthy.

Table 1 illustrates the predicted effect of stock ownership on support for the Dodd-Frank bill, with robust standard errors in parentheses. These results include fixed effects for each of the income categories but we suppress these results here. The effect of stock ownership is statistically significant at the .01% level in each of these models, which supports H1. The effect size is relatively small – an average increase of 5.5% (95% CIs at 3.8-7.2%). However it

might be best considered alongside other variables in individual's political environment/socialization, such as for example trade union membership, in order to get a meaningfully calibrated comparison. The two effects are comparable in magnitude. H2 is also supported by these data, as illustrated in Model 4 below.

Figure 3 below illustrates the predicted marginal effect of stock ownership on support for Dodd-Frank and TARP, respectively.

**Table 1: Logistic Regressions for Financial Policies**

	(1) Dodd- Frank	(2) Dodd- Frank	(3) Dodd- Frank	(4) TARP
Does Not Own Stock	0.148*** (0.0289)	0.136*** (0.0301)	0.0996** (0.0305)	-0.219*** (0.0657)
Not very strong Democrat	-0.752*** (0.105)	-0.743*** (0.0939)	-0.812*** (0.0962)	-0.329** (0.121)
Lean Democrat	-0.0185 (0.117)	-0.104 (0.123)	-0.119 (0.123)	-0.320** (0.121)
Independent	-1.667*** (0.0881)	-1.805*** (0.0832)	-1.855*** (0.0855)	-0.842*** (0.151)
Lean Republican	-3.033*** (0.0729)	-3.092*** (0.0730)	-3.071*** (0.0726)	-1.641*** (0.161)
Not very strong Republican	-2.245*** (0.0772)	-2.309*** (0.0779)	-2.344*** (0.0795)	-0.840*** (0.142)
Strong Republican	-3.206*** (0.0734)	-3.236*** (0.0732)	-3.208*** (0.0728)	-1.517*** (0.149)
Level of Education	0.095*** (0.015)	0.074*** (0.014)	0.083*** (0.014)	-0.0062 (0.027)
Public Policy Attentiveness			0.141*** (0.0281)	0.0621 (0.0498)
Constant	2.179*** (0.138)	2.480*** (0.123)	2.213*** (0.129)	-2.495*** (0.202)
Observations	45875	36074	36074	36696
Pseudo $R^2$	0.231	0.232	0.233	0.032

Robust standard errors in parentheses, \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

**Figure 3: Predicted Effect of Stock Ownership on Support for Different Financial Policies**



### *Hypothesis Test Using a Pew Survey*

We conducted a second test of the impact of asset ownership over the support for post-crisis financial regulatory reforms in the US by making use of a survey conducted by the Pew research center in mid-2010 which surveyed attitudes toward financial regulation. Pew asked via an omnibus phone survey the question “...is passing legislation to more strictly regulate financial institutions...very important, somewhat important, not too important, not at all important or oppose/not needed/should not be done.” Pew randomized the question in a list of other policy-related questions and the survey was of a representative sample of the US population. The results of this survey provide valuable information on the US public’s attitudes toward financial regulation, not only because of the nature of the question asked but also because a variety of demographic information was also collected from each individual. In particular, information that allows us to control for levels of support for more strict financial regulation – such as incomes, political affiliation, and gender were collected, among other such data.

However the same survey did not ask respondents about their own financial involvements, which limits our ability to make any observational inference regarding our research question. To remedy this situation, we utilized a proprietary database that contains a variety of demographic, political and financial indicators of US individuals, called Catalist. Catalist is a database invented for the purpose of marketing and political targeting of US households, and has been shown to be highly comprehensive. Of particular interest to us is the fact that Catalist contains data on individual’s predicted level of ownership in a variety of financial instruments, from stocks to individual retirement accounts to lines of credit. Ownership levels are based on the Donnelley Cluster Spectrum which is an estimation of consumer behavior based on a cluster of demographic traits and survey data.

We conducted a multiple match merge on a variety of demographic characteristics – gender, racial self-identification, income level, state and level of urbanization between the two datasets. This allowed us to provide an averaged estimate of the level of financial asset ownership for the majority of the individuals in the Pew survey. For example Catalist data reveals that a White Texan Females living in an Urban areas with incomes between 50-60K a year have an 85% average probability of owning money market mutual funds. This probability of owning money market funds can then be imputed to all White Texan Females living in urban areas with incomes between 50-60K a year who answered the Pew survey. Because data cannot be matched when a single variable in a series is not answered in the Pew survey, this reduced the number of survey respondents we could impute financial asset information for from 1002 to 755.

We specified binary logit models in which the dependent variable was the level of support for more strict financial regulation. Financial regulation was not only a highly salient issue at the time of the survey, but it was also a highly partisan one. As such we included dummy categories for Independent, Democrat and Republican identified respondents. We also included income category fixed effects, as well as the Pew survey weights in all regressions reported below. Because each financial asset in our data is based on a model/estimate, we generated a simple dummy variable indicating whether a given financial asset is more than 99% likely to be owned by a given respondent, based on the matched demographic characteristics described above. We included a range of financial assets, such as stock, ‘stock mutual fund’, an independent retirement account (IRA), ‘common stock’, and money market mutual funds. Table 2 below displays our results, with income category dummies suppressed. While each of these estimates are associations based on modelled data, we note that coefficient signs are negative in each case. A high modelled probability of owning a stock mutual fund and of having an IRA are statistically significant at the 10% and 5% level, respectively. We treat these results with caution because of the modelled nature of the financial asset ownership data and the relatively low number of observations, but regard them as offering additional support for the H<sub>1</sub>. They also open the question of whether different kinds of financial asset ownership are more strongly associated with reduced support for more strict financial regulation.

**Table 2: Logistic Regressions of Support for Stricter Financial Regulation**

	(1)	(2)	(3)	(4)	(5)
Identifies Democrat	0.445** (0.214)	0.428** (0.213)	0.394* (0.214)	0.452** (0.213)	0.450** (0.213)
Identifies Republican	-0.618*** (0.205)	-0.640*** (0.205)	-0.624*** (0.205)	-0.619*** (0.205)	-0.611*** (0.205)
Owens Stock	-0.325 (0.349)				
Owens Stock Mutual Fund		-0.610* (0.350)			
Has an IRA			-0.843** (0.369)		
Owens Common Stock				-0.317 (0.323)	
Has a Money Market Mutual Fund					-0.0300 (0.317)
Constant	0.471 (0.337)	0.479 (0.337)	0.486 (0.337)	0.469 (0.337)	0.469 (0.337)
Observations	755	755	755	755	755
Pseudo R <sup>2</sup>	0.050	0.053	0.056	0.050	0.049

Robust standard errors in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

### *Hypothesis Test Using Our Own Pilot Survey*

We then began a small pilot study using the Qualtrics survey platform, and Amazon MTurk to recruit respondents, for the purposes of extension into a representative panel in the future. Our survey instrument asked a question that was intentionally designed to mimic the CCES and Pew survey questions discussed above. Specifically, we asked “Tell us whether you support or oppose in principle the ‘Dodd-Frank Wall Street Reform and Consumer Protection Act’. This legislation was passed by Congress in 2010 and it introduces new financial regulations on banks and other financial industries”. We also asked a range of questions on financial asset ownership, including stock ownership but also other financial assets like mutual funds and private pensions, in addition to a wide range of demographic characteristics of respondents. Partisan affiliations were assessed in a number of different ways, either in terms of which party the respondent is closest to versus which party did they vote for in the midterm election. After a very small (50 respondent) pre-pilot to check for bugs, we ran the survey on election day 4 November 2014 and on different times of the day for the week thereafter.

Running our own pilot survey also allowed us to gauge attitudes toward the regulation of a range of different financial institutions. In this respect we asked ‘How much do you support or oppose increased regulation of -’ type questions for several different categories of financial institutions, and randomized their ordering to avoid anchoring effects. These included hedge funds, large international banks, mutual funds and pension funds. We asked this battery of questions separate from questions about Dodd-Frank and about financial regulation in general, and obtained answers along a 5 point Likert scale. In addition to a wide range of demographic questions which will help us with later comparative analysis with the findings from the Pew and CCES surveys, we also asked questions which gauged a respondents own perceived level of understanding of financial markets, as well as the industry they worked in so that we could control for the effect of individuals who worked in the financial industry.

Quality control of survey data is essential, and we took several steps to weed out bad data in this respect. Specifically we eliminated duplicate respondents, respondents that did not complete the survey in its entirety, as well as respondents that completed the survey in less than 3 minutes (average survey completion time was 5.0 minutes, with a 3.9 minute standard deviation). To make our sample of respondents closer to the demographic considered within the financialization literature our results below exclude anyone with a reported income above \$80K/year. We have only just begun to assess these data, and pending some funding contingencies will execute a larger representative sample through a panel firm. However our preliminary results suggest support for  $H_1$ . Our main result, illustrated in Table 3 below, shows a similar result in terms of stock ownership’s relationship to support for Dodd-Frank. Other financial assets other than

stocks, however, are not statistically associated with support for Dodd-Frank. We checked the result in Model 1 after pre-processing the data through coarsened exact matching, and have also expanded the granularity of income categories. The results are very similar with these changes. When we include income categories above 80K/year the results for stock ownership weaken in statistical significance but are still below the 10% level.

**Table 3: Logistic Regressions for 'Support for Dodd-Frank Bill'**

	(1)	(2)	(3)	(4)
Identifies Republican	-1.021*** (0.237)	-1.113*** (0.279)	-1.025*** (0.235)	-1.020*** (0.236)
Identifies Democrat	0.881*** (0.240)	1.007*** (0.310)	0.870*** (0.240)	0.887*** (0.240)
Works in Finance	0.279 (0.457)	0.288 (0.593)	0.227 (0.470)	0.269 (0.469)
Attention to Financial News	0.0697 (0.205)	-0.177 (0.253)	-0.00212 (0.201)	0.0470 (0.203)
Owens Stocks	-0.589** (0.283)			
Owens a Private Pension		-0.290 (0.292)		
Owens a Mutual Fund			0.0786 (0.219)	
Owens Bonds				-0.256 (0.246)
Constant	1.380*** (0.220)	1.668*** (0.287)	1.323*** (0.245)	1.369*** (0.219)
Observations	802	607	802	802
Pseudo R <sup>2</sup>	0.091	0.109	0.085	0.087

Robust standard errors in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

In the Appendix we post the results for a wider variety of financial regulatory areas, from general financial regulation to hedge fund regulation as the dependent variable. While these results are still preliminary and for obvious reasons not representative, we are unable to establish a pattern for specific financial asset ownership and the range of results we get for a range of different financial regulatory policy areas.

In Table 4 we report results for binary logistic regressions models with 'support for bank bailouts' as the dependent variable. These models are similar to that described above but have control dummies for support for bailouts of a variety of different industries. By controlling for these other bailout areas we are able to distinguish the effect of financial asset ownership on support for bank bailouts, rather than industry bailouts in general. Our survey instrument randomized the ordering of these industries to avoid anchoring effects. Our results for these regressions are much more lacklustre than

for Dodd-Frank. Coefficients for different financial assets owned vary in sign and in significance level. Interestingly ownership of bonds is associated with lower support for bank bailouts, which is an unexpected finding and goes against H<sub>2</sub>.

**Table 4: Logistic Regressions for 'Support Bank Bailouts'**

	(1)	(2)	(3)	(4)
Support for Car Company Bailouts	-0.247 (0.283)	0.0500 (0.339)	-0.263 (0.284)	-0.304 (0.284)
Support for Construction Company Bailouts	1.245*** (0.252)	0.806*** (0.312)	1.274*** (0.252)	1.289*** (0.252)
Support for Insurance Company Bailouts	2.525*** (0.243)	2.879*** (0.302)	2.515*** (0.244)	2.519*** (0.242)
Identifies Republican	-0.154 (0.266)	-0.344 (0.318)	-0.170 (0.265)	-0.156 (0.267)
Identifies Democrat	0.0283 (0.213)	0.0117 (0.248)	0.00124 (0.216)	0.0449 (0.213)
Works in Finance	0.238 (0.369)	0.0359 (0.413)	0.240 (0.369)	0.379 (0.372)
Attention to Financial News	0.0762 (0.189)	-0.00309 (0.228)	0.0429 (0.187)	0.143 (0.190)
Owns Stocks	-0.220 (0.302)			
Owns a Private Pension		0.145 (0.264)		
Owns a Mutual Fund			0.242 (0.221)	
Owns Bonds				-0.613** (0.260)
Constant	-1.797*** (0.229)	-1.825*** (0.281)	-1.936*** (0.261)	-1.792*** (0.229)
Observations	769	583	769	769
Pseudo R <sup>2</sup>	0.232	0.250	0.232	0.238

Robust standard errors in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## 6. Conclusions

This paper has sought to empirically assess whether the financialization of everyday life has shifted the preferences of individuals closer to the preferences usually associated with capital-holding classes. In particular, we have used survey data to analyze the extent to which financialization shapes attitudes towards financial policies, in particular the regulation of financial sector and the use of taxpayers' money to bailout banks.

We used three different datasets to test two hypotheses: the Cooperative Congressional Elections Survey (CCES), a Pew research poll that we match with financial asset ownership data, and a pilot survey of our own design. Our results show consistent support for stock ownership in particular as being associated with less support for more stringent financial regulation. Support for bailouts shows more mixed results, but supportive evidence in the CCES survey data.

The results of this paper provide initial empirical support for the notion that the degree of financialization among households is influencing preferences related to financial policies. This must be regarded as an early exploratory attempt to investigate the political implications of the greater financialization of everyday life. Access to most extensive and fine-grained survey data regarding individual attitudes as well as more fine grained measures of the distribution in the ownership of financial assets within society will be crucial in exploring in a more rigorous and systematic way the impact of this trend. Each of the data sources used in this paper have their own tradeoffs, and we hope to strike the right balance and maximize our analytical leverage over this important but (empirically) neglected aspect of contemporary politics by executing a large representative sample survey in the US and a small number of European countries with varying levels of asset ownership and different financial regulatory regimes.

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APPENDIX

Table 5: Logistic Regressions for ‘Support for Stricter Financial Regulation in General’

	(1)	(2)	(3)	(4)
Identifies Republican	-0.595*** (0.217)	-0.694*** (0.247)	-0.620*** (0.219)	-0.594*** (0.217)
Identifies Democrat	1.074*** (0.174)	1.143*** (0.216)	1.030*** (0.175)	1.075*** (0.174)
Works in Finance	0.464 (0.394)	0.0763 (0.446)	0.486 (0.399)	0.469 (0.394)
Attention to Financial News	0.617*** (0.163)	0.515*** (0.199)	0.592*** (0.162)	0.623*** (0.165)
Owens Stocks	0.0393 (0.250)			
Owens a Private Pension		0.233 (0.237)		
Owens a Mutual Fund			0.430** (0.173)	
Owens Bonds				-0.0170 (0.200)
Constant	-0.214 (0.175)	0.168 (0.215)	-0.431** (0.198)	-0.212 (0.175)
Observations	802	607	802	802
Pseudo R <sup>2</sup>	0.092	0.101	0.097	0.092

Table 6: Logistic Regressions for ‘Support for Stricter Mutual Fund and Pension Regulation’

	(1)	(2)	(3)	(4)
Identifies Republican	-0.584*** (0.213)	-0.636*** (0.242)	-0.579*** (0.212)	-0.577*** (0.211)
Identifies Democrat	0.616*** (0.170)	0.694*** (0.204)	0.608*** (0.171)	0.613*** (0.170)
Works in Finance	0.371 (0.376)	0.0679 (0.431)	0.386 (0.377)	0.385 (0.378)
Attention to Financial News	0.166 (0.159)	0.273 (0.192)	0.194 (0.157)	0.197 (0.160)
Owens Stocks	0.359 (0.236)			
Owens a Private Pension		0.0347 (0.225)		
Owens a Mutual Fund			0.0381 (0.172)	
Owens Bonds				-0.00307 (0.191)
Constant	0.213 (0.176)	0.364* (0.216)	0.206 (0.196)	0.225 (0.176)
Observations	802	607	802	802
Pseudo R <sup>2</sup>	0.045	0.053	0.043	0.043

Table 7: Logistic Regressions for ‘Support for Stricter Regulation of Large International Banks’

	(1)	(2)	(3)	(4)
Identifies Republican	-0.236 (0.214)	-0.325 (0.247)	-0.258 (0.216)	-0.237 (0.215)
Identifies Democrat	0.832*** (0.177)	0.850*** (0.215)	0.790*** (0.178)	0.831*** (0.177)
Works in Finance	0.789* (0.438)	0.455 (0.484)	0.809* (0.444)	0.779* (0.438)
Attention to Financial News	0.342** (0.167)	0.330 (0.201)	0.315* (0.165)	0.336** (0.166)
Owens Stocks	0.0223 (0.252)			
Owens a Private Pension		0.193 (0.237)		
Owens a Mutual Fund			0.405** (0.174)	
Owens Bonds				0.0534 (0.204)
Constant	0.195 (0.179)	0.470** (0.224)	-0.00612 (0.200)	0.194 (0.179)
Observations	802	607	802	802
Pseudo R <sup>2</sup>	0.049	0.050	0.054	0.049

Table 8: Logistic Regressions for ‘Support for Stricter Regulation of Banker Bonuses’

	(1)	(2)	(3)	(4)
Identifies Republican	-0.253 (0.208)	-0.350 (0.238)	-0.257 (0.209)	-0.253 (0.208)
Identifies Democrat	0.692*** (0.166)	0.758*** (0.198)	0.682*** (0.167)	0.691*** (0.166)
Works in Finance	0.583 (0.380)	0.378 (0.447)	0.586 (0.382)	0.575 (0.384)
Attention to Financial News	0.124 (0.155)	-0.0435 (0.184)	0.115 (0.153)	0.117 (0.155)
Owens Stocks	-0.0221 (0.235)			
Owens a Private Pension		0.232 (0.220)		
Owens a Mutual Fund			0.0926 (0.168)	
Owens Bonds				0.0348 (0.194)
Constant	0.111 (0.173)	0.320 (0.212)	0.0636 (0.195)	0.110 (0.173)
Observations	802	607	802	802
Pseudo R <sup>2</sup>	0.032	0.039	0.033	0.032

Table 9: Logistic Regressions for 'Support for Stricter Regulation of Hedge Funds'

	(1)	(2)	(3)	(4)
Identifies Republican	-0.479** (0.213)	-0.643*** (0.244)	-0.492** (0.213)	-0.482** (0.214)
Identifies Democrat	0.678*** (0.170)	0.599*** (0.205)	0.646*** (0.171)	0.671*** (0.170)
Works in Finance	0.633 (0.405)	0.361 (0.467)	0.646 (0.407)	0.589 (0.410)
Attention to Financial News	0.529*** (0.161)	0.525*** (0.195)	0.523*** (0.159)	0.502*** (0.161)
Owens Stocks	0.136 (0.247)			
Owens a Private Pension		-0.00500 (0.232)		
Owens a Mutual Fund			0.278 (0.170)	
Owens Bonds				0.264 (0.200)
Constant	-0.0293 (0.176)	0.187 (0.215)	-0.165 (0.196)	-0.0319 (0.176)
Observations	802	607	802	802
Pseudo R <sup>2</sup>	0.054	0.056	0.056	0.055