

DOES DEPOLITICIZATION WORK?
AN EXAMINATION OF GLOBAL FINANCIAL AND TAXATION
GOVERNANCE

D I S S E R T A T I O N

of the University of St.Gallen,
School of Management,
Economics, Law, Social Sciences,
International Affairs and Computer Science,
to obtain the title of
Doctor of Philosophy in International
Affairs and Political Economy
submitted by

Ciarán O’Flynn

from Ireland

Approved on the application of

Prof. Dr. Tina Freyburg

and

Prof. Dr. Matthew Watson

Dissertation no. 5191

D-Druck Spescha, St. Gallen 2022

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The University of St.Gallen, School of Management, Economics,
Law, Social Sciences, International Affairs and Computer Science,
hereby consents to the printing of the present dissertation, without
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St.Gallen, October 29, 2021

The President:

Prof. Dr. Bernhard Ehrenzeller

Acknowledgments

This thesis has been made possible by the hard work, support, and words of encouragement of many people. I would first like to thank my supervisor, Tina Freyburg. Tina has been tremendous help from the very beginning, patient and generous with her time, friendly and supportive. But most of all she pushed me, always, to be better. To write it again, to think about it harder, to say it more clearly, to be more rigorous. She turned a storyteller into a political scientist who tells stories with data. Thanks for your mentorship, and your friendship. I'll never forget debating Brexit with you while hiking furiously up to Seealpsee, or that you were the last to leave the dancefloor at my wedding. Thanks for everything Tina.

I would also like to thank my second supervisor, Matthew Watson. Ever since we met in Bourneville, you have been a source of great encouragement, showing sincere interest and appreciation for my research. Thank you for the depth of thought you gave to your feedback to me. You always pushed me to think a little bigger, make that next link, or dig a little deeper, and after every time we spoke, I was reinvigorated, knowing that you thought I was on the right track. Thanks also to Leonard Seabrooke for agreeing to be my third supervisor.

To my colleagues in the Comparative Politics department: Lisa, Martina, Veronique, Hugo and Karina. Thanks for making all those train rides go past faster, all those meetings fly by, and all those retreats more worthwhile. And a special thanks to Hugo for going above and beyond friendship to patiently work through marginal

effects graphs with me. You are all colleagues who I hope will remain friends for life.

To the rest of my friends and colleagues at the Department of Political Science, especially Sebastian, Manali, Gina, Lina, and Daniel, thanks for all the fun long lunches and nights out in St. Gallen and Zurich. They were too few, but they were memorable.

This PhD would not have been possible without the important feedback from Frank Schimmelfennig, and his team at ETH Zurich. The discussions and debates were always valuable during our four years of winter retreats. In addition, I would like to thank Doreen Spörler-Wagner for research funding, for organizing the DPDS Colloquia, and all the discussants there who were so helpful with their comments.

To my brother Cormac, thanks for always believing in me, and especially my mother Marjorie, thanks for lighting all those candles. I also know my father Anthony would have been so proud that this day came around. To my friends from the DCU days, thanks for all the words of support, particularly Manolis, who has been on this journey since the very beginning – thank you. We met as call-center colleagues, became friends, then housemates, then best men to each other. After debating politics and economics for more than a decade, we now get to become colleagues of a different, academic sort, and I think you, more so than me, knew this day would come.

To my wife Marielena, I need to reserve special gratitude. When I say I couldn't have done this without you, I cannot think of a truer statement I could make. Your love and support have been

unwavering, and you were the glue that held my academic journey together. Copyeditor, Sergeant-Major, Project Manager. You have patiently waited beside me in airport departure lounges, hotel bedrooms, bus stations and anywhere else I could possibly conceive to finish writing and send off that next draft, even though I had promised, promised! that I would be done writing before the trip. Your love lights my life, your belief that I could finish this sustained me through dark nights and sunrises, and the two beautiful children we have together, Mika and Rían, make me excited for our future.

Zurich, 13/01/2022

Ciarán O'Flynn

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Summary

Depoliticization has been described as one of the most important concepts for understanding current patterns of governance in advanced industrial societies. Governments depoliticize issues in two main ways, discursively and via delegation, and they do so for several reasons: To shield highly contested issues from public discussion; to remove the temptation for politicians to think short-term; or to address issues that cross borders. This thesis is interested in looking into where issues with distributional consequences have been depoliticized, to gauge whether the policy is successful, and see who benefits and loses from depoliticization. I employ a variety of methods, utilizing a case-study, a co-variational analysis, and a large-*N* panel-data regression. My focus is also varied, employing a multi-level approach moving from domestic politics, to international politics, and beyond the state to transgovernmental networks (TGNs).

The first study looks at how large banks in the US, especially those deemed ‘too big to fail’, exploit their privileged position on the Federal Advisory Council to lobby the Federal Reserve. I find that the Federal Reserve responds only to the preferences of the very largest banks in the US, and that the impact of their lobbying has grown since the financial crisis of 2008. The second study analyzes the plan by the Biden administration to tax the foreign profits of its corporations at a minimum level, with serious consequences for countries such as Ireland, who are so reliant on corporate taxation that they have depoliticized their economic model from public contestation. That the Biden tax plan endangers the model, shows the exogenously

contingent nature of Ireland's infrastructural power. Yet, I also demonstrate how political polarization in the US may seriously undermine the Biden plan, showing how infrastructural power in the US is itself endogenously contingent. The third paper investigates if TGNs develop features of democratic governance. The results suggest that democratic governance correlates with the pooled authority, but only if there is delegation to non-state bodies within the networks present.

My results suggest that although depoliticization is heralded as an important tool of statecraft, when depoliticization tactics are employed at the domestic or international level, it is not always successful. However, I find that when depoliticization is deployed beyond the state, in TGNs, under certain conditions it can be a successful policy tool. This finding suggests interesting and productive future avenues for the study of depoliticization.

Zusammenfassung

Entpolitisierung wurde als eines der wichtigsten Konzepte zum Verständnis gegenwärtiger Regierungsformen behandelt. Regierungen entpolitisieren Themen auf zwei Arten: diskursiv und mittels Delegation, und sie tun dies aus verschiedenen Gründen: Um stark umstrittene Themen vom öffentlichen Diskurs abzuschirmen, um kurzfristiges Denken der Politik zu verhindern, oder um grenzüberschreitende Themen zu behandeln. Diese Dissertation untersucht, wo Themen mit Verteilungskonsequenzen entpolitisiert wurden, um festzustellen, ob diese Politik erfolgreich ist und wer von der Entpolitisierung profitiert beziehungsweise wer nicht. Sie verwendet eine Vielzahl von Methoden, darunter Fallstudien, Kovarianzanalyse, sowie Large-N-Panel-Regression. Analytisch beruht sie auf einem Mehrebenenansatz, der Innenpolitik, internationale Politik, sowie transgouvernementale Netzwerke (TGN) miteinbezieht.

Die erste Studie untersucht, wie US-Grossbanken, insbesondere solche, die als "zu groß zum Scheitern" gelten, ihre privilegierte Position im Federal Advisory Council nutzen, um bei der Federal Reserve zu lobbyieren. Die Ergebnisse zeigen, dass die Federal Reserve auf die Präferenzen der US-Grossbanken reagiert und dass der Einfluss ihrer Lobbyarbeit seit der Finanzkrise von 2008 zugenommen hat. Die zweite Studie analysiert den Plan der Biden-Regierung, die Auslandsgewinne von US-Unternehmen auf einem Mindestniveau zu besteuern. Für Länder wie Irland, die sehr stark von Unternehmensbesteuerung abhängig sind, hat dieser Plan

schwerwiegende Konsequenzen. Dies unterstreicht die exogen bedingte Natur von Irlands Infrastrukturkraft. Gleichzeitig droht die politische Polarisierung der USA den Biden-Plan zu untergraben, und verdeutlicht dabei, dass auch die Infrastrukturkraft der USA endogen bedingt ist. Die dritte Studie untersucht die TGN-Entwicklungsmerkmale von demokratischen Regierungsformen. Die Ergebnisse deuten an, dass demokratisches Regieren mit gepoolter Autorität korreliert, aber nur, wenn eine Delegation an nicht-staatliche Gremien innerhalb des Netzwerks besteht.

Meine Ergebnisse deuten darauf hin, dass Entpolitisierung zwar als wichtiges Instrument der Staatskunst angepriesen wird, aber nicht immer erfolgreich ist, wenn sie auf nationaler oder internationaler Ebene eingesetzt werden. Es zeigt sich jedoch auch, dass Entpolitisierung, wenn sie außerhalb des Staates, im TGN, eingesetzt wird, unter bestimmten Bedingungen ein erfolgreiches politisches Instrument sein kann.

1 General Introduction

The financial crisis of 2008 precipitated a dramatic increase in the public salience of global financial and tax governance (Baker, 2010; Christensen & Hearson, 2019; Helleiner, 2014; Pagliari, 2012). This was driven by a number of factors, amongst them: criticism of the light-touch supervision that led to the creation of ‘bad-banks’, bail-outs, and austerity; debates over whether policies designed to mitigate future crises, such as Basel III, were being shaped by the same firms those measures were trying to regulate (Pagliari & Young, 2015; Young, 2012); and in part by tax scandals such as Luxleaks in 2014 and the Panama Papers in 2016, which detailed myriad ways in which corporations were evading taxation (Dover, 2016; Roland and Römgens, 2021). These scandals and debates moved conversations surrounding these issues from the business press to the front pages, and have kept them there to this day.

As these issues increase in salience, the variety of actors with a stake in the issue increases, and the conflict lines of the issue become more polarized. This is why the strategy of depoliticization has for so long been a tactic used by politicians to cede responsibility for high consequence areas (Flinders, 2013; Hay, 2007), preferring instead to shift towards technocratic models of decision making and governance (Davis et al., 2015). In addition, many issues with high public salience have effects that do not respect borders. Because of these spillovers, governments have found it useful to delegate these issues to non-state bodies, as a means for states to come together to solve common

problems (Zürn, 2013). Because of this, depoliticization has been described as one of the most important concepts for understanding current patterns of governance in advanced industrial societies (Foster et al., 2014).

This thesis will ask the question: What is the success of depoliticization? I will view depoliticization as different tactics (Flinders & Buller, 2006a), and I am interested in two principal tactics in which depoliticization is deployed, governmental and discursive. Briefly, governmental depoliticization is delegating functions of elected officials to bodies where they no longer have direct control (Wood & Flinders, 2014a), and to place at one remove the political character of decision-making (Burnham, 2001). In contrast, discursive tactics focus on the role of language and ideas to depoliticize issues, to redefine them as issues that are beyond the control of politicians or the public alike.

I investigate the tactics of governmental and discursive depoliticization in three political arenas: domestic, international, and beyond the state. To be clear, these three arenas, which form the basis of the three studies contained within this thesis are not meant to be read as chapters where one follows the other narratively, but rather each study targets a distinct literature and intellectual community, in order to arrive at a more holistic answer to my question.

The first study, *The Impact of Financial Firms' Diverging Interest Rate Preferences on US Monetary Policy*, challenges scholarship on the Federal Reserve that argues that banks do not lobby on interest rates, holding that banks would not waste scarce

resources advocating for a position that central banks already know they embrace. To empirically test this assumption, I use a novel dataset drawn from the balance sheets of banks that have sat on the Federal Advisory Council (FAC) between 2003-2019, to run a firm-level panel regression. The two main contributions are that for all sizes of banks, only the four largest banks sitting on the FAC influence the Federal Reserve on monetary policy, and that this influence can lead to the Federal Funds rate falling as well as rising. However, for influence to occur, banks must be sitting on the FAC, and the salience of financial regulation must be low. I conclude that only the largest banks in the US can bend the ear of the Federal Reserve, and this position is only growing more entrenched, which opens new avenues for the study of bank lobbying and the political power of finance.

The second study, *Power Politics in the Taxation of Transnational Corporations*, challenges as its starting point the argument that US economic policy is commonly seen as driven by corporate influence rather than electoral competition, where policymakers seem to be more responsive to the needs of large corporations than voters. A global minimum tax rate on foreign-earned profits of US corporations, as suggested by the 2021 Biden tax plan, promised a fundamental change to this understanding. Yet the Biden tax plan is not a *fait accompli*. Due to deep political polarization, the Biden plan faces enormous challenges to become law. Even though the US enjoys a preponderance of power in the foreign policy realm, this power can be rendered moot by domestic

political intransigence. The Biden plan is not only a radical departure for the US, but also for countries that have come to rely on US Foreign Direct Investment (FDI) for large portions of their domestic tax-take. The Biden plan shows that these states' growth models, dependent on US FDI continuing to flow to them, may be built on pillars of sand. This is despite off-shore financial center (OFC) states such as Ireland discursively depoliticizing the growth model, such that domestic contestation of the model is thwarted. Given that tax-paying is often used as a signifier of infrastructural power, and taxation has been called the 'least likely case' of state capacity decline, studying how the Biden tax plan has effects, both domestic and international, will allow for a greater understanding of the conditions under which consolidated infrastructural power may be merely contingent. This paper will investigate this using a diverse case methodology focusing on the US and Ireland. In doing so, this paper seeks to understand how variation in levels of both foreign policy power, and infrastructural power, affects how states make corporation tax policy. This paper highlights that countries with low levels of foreign policy power may not be able to protect the conditions that enable their infrastructural power, even though they have depoliticized their growth models, rendering those models dangerously exogenously contingent. In addition, I aim to highlight how political polarization can render the infrastructural power of even large states such as the US endogenously contingent.

The third study, *Democratic Governance and Transgovernmental Networks*, (a co-authored paper with Tina

Freyburg, Sandra Lavenex, and Ivo Krisic) analyzes transgovernmental networks (TGNs), fundamental pillars of modern global governance. This paper provides a theory-guided, systematic empirical analysis of democratic governance in these networks of state executives enjoying a certain degree of independence from national governments. We enquire into whether TGNs are mere technocratic bodies insulated from democratic state-level institutions, or whether their own institutional set-up embraces features of democratic governance. We first develop a novel conceptualization of democratic governance capturing input, throughput and output sources of legitimacy derived from three democratic traditions (liberal, republican, deliberative) and a technocratic one. We use this differentiated measurement to investigate the variation in democratic governance across six pivotal TGNs, characterized by varying authority and member composition. Our findings suggest that TGNs show more democratic governance if composed of democratic member-states and equipped with competencies for authoritative policymaking. The study highlights that an institution's acquisition of (state) competences correlates with its pressure for democratization.

Table 1: Overview and Structure of Thesis

Title	Key Actors	Theoretical assumptions:	Question(s)	Key Works
& Depoliticization Tactic				
Study 1: The impact of financial firms' diverging interest rate preferences on U.S. monetary policy	Federal Advisory Council (FAC)	Banks have preferences, and are willing to lobby for the at the FAC	How does the size of bank matter?	Baker, A. (2010); Culppeper, P. D. (2011); Fairfield, T. (2010); Hacker, J. S. and Pierson, P. (2011); Jacobs, L. R. and King, D. S. (2016); Lavelle, K. C. (2013); Woolley, J. T. (1984); Young, K. L. (2015)
	Federal Reserve Bank of the United States (Fed)	The Fed is predisposed to the interests of banks, especially very large banks	Does FAC membership matter?	
			Do these effects change after the crisis hits?	
			What are banks interest rate preferences?	
Governmental depoliticization				
Study 2: Power Politics in the Taxation of Transnational Corporations	USA	Infrastructural power can be both endogenously, and exogenously contingent	Does Foreign Policy Power ensure Infrastructural Power consolidation?	Abramowitz, A. I. and Saunders, K. L. (2008); Baccaro, L. and Pontusson, J. (2016); Barnett, M. and Duvall, R. (2005); Brazys, S. and Regan, A. (2021); Hacker, J. S. and Pierson, P. (2002; 2021); Long, T. (2017); Mann, M. (1984); Soifer, H. (2008); Weiss, L. and Thurbon, E. (2018)
	Ireland	States use their foreign policy power to protect their infrastructural power		
Discursive Depoliticization				
Study 3: Democratic governance and transgovernmental networks	European Banking Authority (EBA)	Democratic governance in a TGN is more likely if:	Do transgovernmental networks develop democratic institutional features—and under what conditions?	Božina Beroš, M. (2018); Dahl, R. (1994); Gilardi, F. (2008); Hooghe, L. & Marks, G. (2003; 2015); Moravcsik, A. (2002); Papadopoulos, Y. (2010); Schmidt, V. (2013); Slaughter, A-M. (2004).
	Basel Committee for Banking Supervision (BCBS)	It is composed of developed democracies;		
	Environmental Compliance and Enforcement (INECE)	has authoritative competences.		
	European Network for the Implementation and Enforcement of Environmental Law (IMPEL) European Competition Network (ECN)	has pooled authority;		
Governmental depoliticization	International Competition Network (ICN)	has delegated authority		

1.2 Results

Flinders and Buller define depoliticization as “the range of tools, mechanisms and institutions through which politicians can attempt to move to an indirect governing relationship and/or seek to persuade the demos that they can no longer be held reasonably responsible for a certain issue, policy field, or specific decision” (2006a). They note that there is nothing in this definition that regards making any of the issues less ‘political’. After depoliticization has occurred, the politics remains, it is merely the process or arena that has changed (ibid). Therefore, to see if depoliticization is successful, it is necessary to understand the goal for which it was deployed. Yet, as with any ‘mode of statecraft’ (Wood & Flinders, 2014b), a policy must also be democratically legitimate to be successful. In my first paper, on the FAC, I find that delegation as governmental depoliticization has failed. Although monetary policy is siloed from public contestation, the Federal Reserve is responsive to very large banks. Choosing Wall Street over Main Street, while unsurprising, is not democratically legitimate. In the second paper, on the Biden tax plan, I find that discursive depoliticization on the part of the Irish government, denying public contestation of its low-tax growth model, fails based on goals, not legitimacy. If a government is to employ discursive depoliticization as a statecraft tactic, to cordon an issue off from debate by the electorate, it should not be easily contestable by actors outside the state. The Biden tax plan, regardless of its successful passage or not through Congress, shows that discursive

depoliticization is not a successful tactic in this instance. However, for the third paper, I find that delegation to TGNs seems to have a measure of success. It is argued that the current macroprudential regime is ‘a technocratic project designed by technocrats for technocrats’ (Engelen et al., 2011), and yet the results of the TGN paper suggest that the EBA is building particularly robust institutional features of democratic governance, though this would have been considered unlikely at the EBA’s inception, given its distance along the chain of democratic legitimacy. Fortunately, this is not the case, and I argue that scholars of depoliticization would do well to look at the particular characteristics of the EBA, in order to improve delegation as a depoliticization tactic into the future.

1.3 Literature Review and Research Gap

Fawcett et al argue that, in the still relatively small body of literature on depoliticization, with only very rare exceptions, the extant literature on the topic of depoliticization accepts as self-evident that it is ‘bad’ for democracy (Fawcett et al., 2017, p. 5). I aim to interrogate this assumption in two ways. First, by asking if it is bad for democracy, who is it good for? And second, by challenging the assumption itself by looking to whether depoliticization can actually be an avenue for democratic legitimacy. Furthermore, Wood and Flinders (2014a) argue that any debate involving depoliticization that relies purely on a state-centric conception of institutions and politics leads to a shallow analysis. Therefore, it was necessary to interrogate depoliticization in an arena beyond the state.

The first paper looks at the Federal Advisory Council, and how banks, and in particular very large banks, lobby the Federal Reserve on monetary policy. Central bank independence is often conceptualized as a depoliticization strategy (Eberlein & Newman, 2008), and sits firmly within the understanding of depoliticization as arena shifting, that aims to strip the political character from decision-making, by handing over the reins of policy to technocrats (Flinders & Buller, 2006a; Kuzemko, 2016). As noted by many scholars of depoliticization, the process of depoliticization does not make the issues any less ‘political’ (Flinders & Buller, 2006b), it is merely more insulated from popular challenge. This may be seen as either a feature or a bug depending on whether your view of the situation is either critical or problem-solving (Gill, 1998). The economic logic behind this arena shifting has been well theorized, with Alesina and Stella (2010) being one of the most comprehensive. In brief, because of the distributional effects of monetary policy, anyone holding the reins of monetary policy has the ability to give a temporary boost to the economy. The solution to this is believed to be delegation to an independent central bank, which would pursue a conservative monetary policy (Fernández-Albertos, 2015; Rogoff, 1985).

However, independent central banks have not necessarily been a panacea against outside influence, and the concept of regulatory capture has been discussed at length in the literature on financial regulation and central banking. In particular, the concept of ‘revolving doors’, where scholars note the potential for conflicts of interest when public servants anticipate working in the private sector

in the future, and therefore make decisions that would benefit future paymasters (Johnson & Kwak, 2010; Seabrooke & Tsingou, 2009; Stigler, 1971). Furthermore, Adolph (2012) holds that a central banker's policymaking is driven by career concerns and shaped by their specific sectoral and educational backgrounds.

Although the politics of delegation to central banks is well covered in the literature, there is one particular gap in the literature that this paper seeks to cover. Namely, that it is accepted within the literature that banks sitting on the FAC are not expected to exploit their privileged position on this advisory board to lobby in favor of their interest rate preferences. Woolley (1984) argues that central bankers already understand the preferences of banks, which is that banks always want higher interest rates. Therefore, why would banks waste scarce resources lobbying central bankers, when those same central bankers already know banks' preferences. The literature on the FAC impact on US monetary policy extends to two articles: Havrilesky (1990) and Weise (2008). Havrilesky argues that Federal Reserve monetary policy responds to the signals from the banking industry; Weise concurs, holding that monetary policy matches the preferred stance of the banking industry (but only after 1979, not before). Both were interested in the period preceding and after the 'Volcker shock', with Havrilesky studying 1973 – 1985, and Weise taking the data up to 2000. However, neither could appreciate the changing dynamics of the financial industry, notably financialization or the rise of the shadow banking system (Braun, 2018; Jacobs & King, 2018; Krippner, 2005). Instead, they treated the banking industry as a

relatively homogenous entity. Furthermore, even though both these articles assessed the impact of the FAC on the Fed's monetary policy activities and found there to be a positive effect, the wider literature on bank lobbying argues that this type of channel is ignored by the financial sector (Lavelle, 2013). Therefore, the paradigm shift that is financialization, with its implications of heterogeneous policy preferences for finance, ensures that this paper provides a timely update to not only the literature on the Federal Advisory Council by not treating the banking industry as a unitary actor, but also on bank lobbying and the creation of monetary policy more generally.

The second paper look at how power politics, domestic and international, affects how corporations are taxed. The politicization of corporate taxation is now well described in the literature (Christensen & Hearson, 2019; Rixen, 2008, 2009), especially as it relates to the European Union (Büttner & Thiemann, 2017; Roland & Römgens, 2021). However, depoliticization, as a response to this politicization, is a gap in the literature that this paper seeks to fill. In particular, I am interested in how a TINA (There Is No Alternative) narrative (Séville, 2017; Watson & Hay, 2003; Wolf & Van Dooren, 2018) regarding Ireland's economic growth model (based on being an off-shore financial center for mainly US foreign direct investment) is a case of discursive depoliticization. Though Berry and Lavery (2017) analyze the debt-led growth-model in the UK from a discursive depoliticization standpoint, they do so by investigating the neoliberal economic logic that underpins that growth model. I seek to contextualize the Irish growth model within two disparate but

connected understandings of how power is wielded by states: power wielded domestically, known as infrastructural power (Mann, 1984); and the more common conception of state power which is power wielded external to state (Barnett & Duvall, 2005), what I term foreign policy power. By investigating how discursive depoliticization needs to be allied to the successful use of foreign policy power, I aim to bridge political economy and its understanding of depoliticization and growth models with classic international relations theories of power. In doing so, I aim to test whether discursive depoliticization can really work, when the policies that are siloed off from domestic contestation cannot be protected from contestation by other states.

The third paper looks at transgovernmental networks (TGNs), a typical representation of governmental depoliticization by delegation. TGNs face two main objections to their democratic legitimacy: First, that they are international and therefore the chain of legitimacy is longer and weaker than it is for international organizations (Kingsbury *et al.*, 2005). Second, they do not draw on elected officials for membership, instead being formed by non-elected state officials from specialized ministerial departments or independent domestic regulatory agencies.

This ‘denationalization’ of politics leads to an eventual choice between problem-solving through democratic political processes, or international institutions - the “sensible response to the problems facing democracy in times of societal denationalization” (Zürn, 2003, pp.12). If the latter is chosen, then this delegation presents a dual

challenge to democracy, because it not only causes voter disaffection, but also negates the ability of the voters to hold decision-making to account by occurring outside the bounds of public control. As a result, a political impasse may occur between “the ability of the citizens to exercise democratic control over the decisions of the polity versus the capacity of the system to respond satisfactorily to the collective preferences of its citizens” (Dahl, 1994, pp. 21). However, not everyone is so pessimistic, with some recognizing that international institutions may be the only fora that can actually salvage the problem-solving capacity of the state, and in doing so, protect some of the constitutional fundamentals that underpin democracy (Keohane, Macedo and Moravcsik, 2009). Therefore, there is an imperative to analyze, as has been done with international organizations, the democratic nature and trends of TGNs. To fill this gap, our paper is, to our knowledge, the first systematic empirical analysis of the democratic quality of transgovernmental networks.

My thesis is interested in the depoliticization of issues with distributional consequence, and so of the six TGNs under study in this paper, two are financial TGNs, namely the Basel Committee on Banking Supervision (BCBS) and the European Banking Authority (EBA). As noted earlier, given how salient financial regulation has become since the financial crisis, investigating the democratic quality of the end destinations of the process of ‘arena shifting’ that is depoliticization (Flinders, 2005) is vitally important. Furthermore, a key question within the literature on depoliticization is whether differing conceptions of democracy are necessarily in conflict with

depoliticization as a governing strategy. As noted by Flinders and Buller, “maybe the problem lies not with the concept of depoliticization per se but with the dominant model of democracy that lacks the flexibility to question, pursue and grasp the new arenas and processes that depoliticisation tactics create (Flinders & Buller, 2006a).

In terms of my thesis, I am most interested in how (if at all) the transgovernmental networks of central banks democratically legitimize themselves, when endorsement from financial markets is the only real pressure they feel (Watson, 2002). By analyzing financial TGNs’ democratic legitimacy efforts, the paper should challenge the assertion by Flinders and Buller that institutional depoliticization “represents a more complete eradication of politics from decision-making” (2006a, cited in Berry & Lavery, 2017, pp. 8). Claims regarding the complete or partial eradication of politics from TGNs need to be empirically and systematically investigated, and this is precisely what our paper provides.

1.4 Methodology & Key Variables Operationalized

My choice of methodology is driven by the data and empirical context of each paper first. Therefore, there is an eclectic mix of methods contained within this thesis, moving from a quantitative large-*N* study, through a case-study analysis, along with a co-variation analysis. This highlights my intent to choose the topic of study because of its possibility for empirical or theoretical contribution,

rather than favoring topics that align with a preferred method and/or data.

The first paper, on the Federal Advisory Council, is a firm-level panel comprising five interest-rate preference indicators drawn from the balance sheets of 56 banks over the period 2003-2019. The five monetary policy preference indicators are: Tier-1 leverage ratio, Loan to Deposit Ratio, Texas Ratio, Net-Interest Margin, and Non-Interest Income Ratio. An exploratory factor analysis was run on the balance sheet indicators, which was then inputted into a generalized least squares model (GLS) regression. The data collection and analysis were also backed up with expert interviews. One of the central arguments in the paper was my expectation that the larger the bank, the more likely it is that the Fed would listen to its preferences. I therefore organized my panel of banks into three sizes: small, large, and prominent banks. The prominence variable is operationalized as a time-period when one of the 'Big Four' banks sits on the board of the FAC. A large sized bank is a 'GSIB', that is, a globally systemically important bank, that is not one of the 'Big-Four'. Big-Four banks, though also classified by regulatory authorities as GSIBs, are of an order of magnitude larger than non-Big-Four GSIBs in the US. These four are Citigroup, Bank of America, Wells Fargo, and JP. Morgan, and in 2014 they had approximately \$4.6 trillion in deposits between them - almost 45% of the total deposits for all U.S. commercial banks (Nasdaq.com, 2015). Small banks are those who fall into neither of these two categories.

The second study employed the diverse case-study methodology (Seawright & Gerring, 2008). The paper investigates the effect of the Biden tax plan on offshore financial centers (OFC). The diverse-case methodology requires at least two cases which are intended to represent “the full range of values characterizing X, Y, or some particular X/Y relationship” (ibid, pp. 300). Ireland was chosen as the other diverse case of infrastructural power contingency (the first being the US), because along with its close links to the US and European Union membership, Ireland had vociferously defended its status as a low-tax OFC, which resulted in Ireland’s FDI-based growth model being depoliticized. This paper is seeking to understand an X/Y relationship where X is infrastructural power in developed nations—which I argue is either endogenously or exogenously contingent—and where Y is foreign policy power. I am choosing to study the infrastructural power of developed nations specifically, because I am interested in how seemingly consolidated infrastructural power might be contingent on other factors, rather than how infrastructural power is acquired in the first instance.

The third study employs a comparative co-variational analysis, which is a methodology that generates inference by showing the joint variability of independent and dependent variables. Concentrating on the manifestation of phenomena that are conditional on the variance of potential causal factors, for example low/medium/high or present/absent, it allows for verifying whether one or more factors “make[s] a difference” (Blatter and Haverland, 2012, pp. 33). The empirical analysis in the paper is based on: the institutional features

of democratic governance of each network; their *de jure* authority; and the composition of their membership since the TGN was created. We predominantly used primary documents (such as constitutions or governing documents), along with existing academic literature which we supplemented with interviews and email exchanges with network representatives and members, where additional insight was needed.

1.5 Contribution

This thesis makes several contributions to the debate on depoliticization generally, along with more specific contributions in each study relating to the literature in which they are situated. The first paper, situated in the central banking and finance literature, makes both empirical and theoretical contributions. The first is to synthesize theories on bank profitability with the political economy literature on bank lobbying on monetary policy. By highlighting the contexts in which banks prefer lower interest rates, I was able to move beyond simplistic analyses of finance industry preferences and show how banks might lobby for these preferences. The second contribution was to show the particular structural and instrumental power contexts necessary in order for banks to lobby the Federal Reserve successfully. That is, that only the four largest banks in the US were able to successfully have their preferences met, but additionally, only when they were members of the Federal Advisory Council. By showing that the largest, most structurally prominent banks were the only banks having their preferences met by the Fed, I was able to demonstrate that delegation to an independent central

bank has distributional consequences in which the Fed picks winners, which I argue undermines the legitimacy of the delegation decision. I further was able to empirically show how bank lobbying was least successful in times of crisis, which adds empirically to the debate on the salience of financial regulation (Baker, 2010). Finally, I enrich the debate on bank lobbying in the US by shining a light on an understudied body, the FAC. In doing so, I have been able to create a database ‘FAC POWER’ (O’Flynn, 2021) which I have made publicly accessible for future studies of the FAC. This database contains searchable data on a variety of balance sheet variables for the 56 banks who have sat on the FAC between 2003 and 2020, which I hope will be used by other scholars looking to research bank lobbying in the US.

The second study makes contributions to the literature on infrastructural power by expanding it to include conceptions of how infrastructural power can be both endogenously and exogenously contingent. By linking infrastructural power to foreign policy power, I also bring together the audiences and literatures of international political economy, historical sociology, and international relations in a way I hope to be fruitful for scholars analyzing the breadth of state power in the future. Furthermore, by showing how infrastructural power can be exogenously contingent, I theoretically contribute to the depoliticization literature, by highlighting circumstances where domestic instances of discursive depoliticization can be undercut by international politics.

The third study paper situates itself within the nascent literature on the democratic properties of international institutions, and the paper makes three contributions to this literature. First, in terms of empirics, this paper addresses a type of international institution that, though widely debated, has rarely been systematically investigated: transgovernmental networks. While great strides have been made in theory-driven empirical research on the democratic quality of intergovernmental organizations, TGNs have not been shown the same attention. That our paper is giving that attention to these networks now is important, because of the proliferation and growing influence of TGNs, tasked with helping to solve issues that cross borders. Therefore, our study fills a significant research gap. This paper does so through a rigorous comparative study of six important transgovernmental networks which vary on their decision-making authority and their democratic membership composition.

Second, the study makes a theoretical contribution by creating an innovative framework that combines liberal, republican, and deliberative schools of democratic thought, and then uses these to identify input, throughput, and output modes of democratic governance, while also contrasting these with a technocratic counterpoint. Importantly, we do not prioritize one normative conception of democratic governance over another, a stance that enables us to focus and interpret the complex nature of democratic governance in the international sphere, while also being able to contextualize its fundamental deficiencies.

Third, the paper is grounded by a theory-guided empirical analysis, a key contribution of the paper, which arises from a systematic conceptualization of democratic governance, derived from twenty-one methodically operationalized and theoretically rooted indicators, which we believe could be of great value to other scholars seeking to investigate democratic governance in the future.

1.6 Thesis Outline

The thesis is structured as follows: Chapter 2, *The Impact of Financial Firms' Diverging Interest Rate Preferences on US Monetary Policy*, is a single-authored study of governmental depoliticization at the national level. This study looks at how successful delegation to central banks is, when faced with banks that are 'too big to fail'. Chapter 3 is also single-authored, and is a study of discursive depoliticization at the international level, titled *Power Politics in the Taxation of Transnational Corporations*. This investigates how successful discursive depoliticization can be when used as a tactic, when the issue that is depoliticized impeded the material interest of a great power. Chapter 4, *Democratic Governance and Transgovernmental Networks*, is a jointly-authored paper, focusing on a governmental depoliticization, but this time beyond the state. Chapter 5 will conclude with a summary of the main contributions of the thesis, and will outline further avenues for future research.

2 The Impact of Financial Firms' Diverging Interest Rate Preferences on US Monetary Policy.

Abstract

Scholarship on the Federal Reserve argues that banks do not lobby on interest rates, holding that banks would not waste scarce resources advocating for a position that central banks already know they embrace. To empirically challenge this assumption, I use a novel dataset drawn from the balance sheets of banks that have sat on the Federal Advisory Council (FAC) between 2003-2019, to run a firm-level panel regression. The two main contributions are that for all sizes of banks, only the four largest banks sitting on the FAC influence the Federal Reserve on monetary policy, and that this influence can lead to the Federal Funds rate falling as well as rising. However, for influence to occur, banks must be sitting on the FAC, and the salience of financial regulation must be low. I conclude that only the largest banks in the US can bend the ear of the Federal Reserve, and this position is only growing more entrenched, which opens new avenues for the study of bank lobbying and the political power of finance.

2.1 Introduction

Since the financial crisis, much attention has been given to monetary policy, such that quantitative easing, negative interest rates, consequent predictions of stock market bubbles, and threats of both deflation and hyperinflation have moved from the business pages to the front pages. Mainstream economics literature has for some time focused on trying to define the range of factors that drive monetary

policy, such as new economic growth, liquidity, consumption, or inflation figures. The business press also has highlighted the frequent attacks by the former President of the United States (US) Donald Trump on the Federal Reserve (hereafter “the Fed”) for its interest rate decisions (WSJ.com, 2019). Yet one factor has been overlooked: the diversity of preferences that financial firms exhibit towards interest rates.

This paper examines the heterogeneous interest rate preferences of banks, and how they inform how banks lobby on monetary policy. Financial firms, in the most benign view of their policy-advice role, have highly specialized knowledge, given that much of the impact of central bank policy is frontloaded onto them. Therefore, their unique insight is highly valuable to central banks for the efficient operation of financial markets, in the context of the specific expert knowledge that financial firms can provide a central bank, over and above the economic advice that the FAC can easily get from its own in-house economic research teams.

I argue, conversely to the literature, that banks lobby on monetary policy, and this paper models the effect of banks who are members of a leading banking industry lobby group, the Federal Advisory Council (FAC), giving policy recommendations to the Fed. To model this effect, it must first be ascertained what the preferences of banks regarding interest rates might be. To that end, I select five indicators which are most affected by interest rate fluctuations, drawn from the balance sheets of a panel of US banks that sit on the FAC, and then employ an exploratory factor analysis (EFA). The factors

that are returned by the EFA are then used within a generalized least squares panel model, with the panel drawn from the banks that sat on the FAC during the period 2003 to 2019. Accounting for the size of the banks (small, large, and prominent, that is, one of the ‘Big-Four’), and their membership of the FAC over time, the panel is used to predict the probability of these banks’ interest rate preferences influencing the Federal Funds rate, via lobbying at the FAC.

I find that these four largest banks in the US, the structurally prominent banks (Young, 2015) that are the largest of those that are even ‘too big to fail’, are more likely to successfully further their interests through lobbying at the FAC. In other words, that their structural power (their size or ‘prominence’) must be augmented by their instrumental power (in this case activated by membership of the FAC). I also find that though the structural power of prominent banks waned during the financial crisis, it returned in earnest for those same banks in the post-crisis period. Furthermore, I find that for prominent banks that are highly financialized, there are clear situations where those banks prefer lower interest rates, and will lobby for these preferences at the FAC.

A bank’s preference towards interest rates, and how one might lobby for those preferences, is a gap in the literature that has only appeared because of developments in banking due to financialization. Though the process of financialization can be traced back to the 1970s, the period where change in the banking industry has been most intense has been since approximately 1990 -2000, and especially after 2000. Prior to 1990, banks were relatively conservative and

homogenous, and their monetary policy preferences were posited to consistently prefer higher interest rates (Woolley, 1984). This was when the ‘3-6-3 rule’—a well-worn joke in banking circles: borrow at 3%, lend at 6%, and be on the golf course for 3 p.m.—had more than a grain of truth to it (Walter, 2006). Yet, since that era, banking has changed radically, as the process of financialization has driven banks to become more politically powerful corporate actors (Hacker & Pierson, 2011; Johnson & Kwak, 2010).

Given the rising power of the financial industry, to try and gauge banks’ political influence it is important to scrutinize fora where banks make policy recommendations, and study the decisions made there. One such forum—that I would argue is understudied, relative to the importance and network-centrality of its members—is the FAC. The FAC is made up of twelve members of the financial industry, whose role is to consult and advise the Federal Reserve, the central banking system of the U.S., “on all matters within the Board’s jurisdiction” (Federal Reserve 2016). The FAC’s quarterly advice paper to the Fed usually incorporates a mix of recommendations regarding current loan and financial market conditions, regulations, trade policy, and topical issues that affect the industry, closing always with monetary policy advice.

However (breaking from previous scholarship on the FAC), instead of taking the consensus position reported in the advice paper as the homogenized monetary policy preference of the banks sitting on the FAC, I posit that banks sitting on the FAC will use this meeting to lobby for their individual interest rate preferences. Though it seems

self-evident that this would occur, it is accepted within the literature that banks sitting on the FAC are not expected to exploit their privileged position on this advisory board to lobby in favor of their interest rate preferences (Lavelle, 2013; Woolley, 1984). This paper will challenge this expectation.

The literature on the FAC impact on US monetary policy extends to two articles: Havrilesky (1990) and Weise (2008). Havrilesky argues that Federal Reserve monetary policy responds to the signals from the banking industry; Weise concurs, holding that monetary policy matches the preferred stance of the banking industry (but only after 1979, not before). Both were interested in the periods preceding and following the ‘Volcker shock’, with Havrilesky studying 1973 – 1985, and Weise taking the data up to 2000. However, neither could appreciate the changing dynamics of the financial industry, notably financialization or the rise of the shadow banking system. Instead, they treated the banking industry as a relatively homogenous entity. Furthermore, even though both these articles assessed the impact of the FAC on the Fed’s monetary policy activities and found there to be a positive effect, the wider literature on bank lobbying argues that this type of channel is ignored by the financial sector (Lavelle, 2013). Therefore, the paradigm shift that is financialization, with its implications of heterogeneous policy preferences for finance, ensures that this paper provides a timely update to not only the literature on the Federal Advisory Council by not treating the banking industry as a unitary actor, but also on bank lobbying and the creation of monetary policy more generally.

Consequently, this paper will provide a rigorous theoretical framework alongside a systematic empirical model to precisely delineate bank preferences (and preference attainment). In doing so, I aim to answer four guiding questions. The first two are: Does bank size matter regarding the influence it has over the Fed?; and are these effects only evident during the period a bank sits on the FAC? These two questions are intrinsically linked to their political power, which can be broken down into two interlinked categories, their instrumental and structural power. The third guiding question is: Do these effects change after the crisis hits? This question delves into how the political power of finance has evolved over time. The fourth and final question is: Do banks have heterogeneous preferences for interest rate policy?

To answer these questions, the following section expands on how financialization has altered the banking landscape and the material interests of banks. The next section shows how this shift in material interests feeds into how banks' interest rate preferences are diverging. A section delineating economic orthodoxy, exemplified by the Taylor rule follows, before outlining the mechanism through which finance generally exerts its political power. Hypotheses follow, before details about the data and methodology are provided. Following that are the results, then conclusion.

2.2 Financialization, the Taylor rule, and financial firms' influence and interest rate preferences

The shift in developed countries from industrial to finance capitalism—commonly described as ‘financialization’—that began in

the 1970s in the US, has made banking and finance the largest and most important sector of the global economy (Krippner, 2011). As the financialization of the global economy increased, so too have banks become richer and more powerful, swelling their leverage ratios and profit-margins, diversifying their balance sheets, inventing complex financial instruments, and reaping huge profits from fee-based income.

During the 1990s and 2000s, the steady rise of financialization made wealth highly concentrated in the financial sector. The concentration gave bankers decisive political power, leading to what Johnson and Kwak (2010) have likened to a financial oligarchy. This wealth in turn led to much increased lobbying expenditure and campaign donations, to Democrats and Republicans alike. In the following years, Congress, the Fed, the Securities and Exchange Commission (SEC) along with the Treasury directed a succession of deregulatory reforms (ibid).

The process of deregulation culminated in the repeal of Glass-Steagall, an early 20th century law passed in the US that forced investment and commercial banks to split into separate entities, thereby greatly reducing the risk of losses to ‘Main Street’ savers. The repeal, known as the Gramm-Leach-Bliley Act of 1999 allowed banks to develop further into financial services activities distinct from traditional banking. Large banks capitalized quickly on this repeal to expand into non-traditional activities such as securities underwriting, insurance sales, and retail brokerage, all of which produce non-interest income. As the non-interest income of large banks in the US

doubled (Yin & Yang, 2013), they moved into areas which in some cases made financial sense for them to be borrowers, rather than exclusively lenders. And thus, the stereotype of the conservative banker making prudent profits from sensible loans, as envisaged by Woolley (1984), looked increasingly like a distant memory.

There are three sizes of banks (the term banks and financial firms will be used interchangeably) under study in this paper: small, large, and prominent. Large banks refer to what have become known as ‘bank holding companies’ (BHC). BHCs typically have a large parent corporation, owning a number of domestic bank subsidiaries (engaged in lending, deposit-taking, and other activities) as well as nonbanking and foreign subsidiaries (engaged in a broader range of business activities, such as securities dealing and underwriting, insurance, and real estate). My cut-off for a large BHC is a bank that participates in the Fed’s Comprehensive Capital Analysis and Review (CCAR), a stress test for the largest banks in the US (Federal Reserve Board, 2016). BHCs with average total consolidated assets each of over \$250 billion USD take part in CCAR, and since the size of banks is usually measured via their total assets, this \$250 billion is the standard I use when defining large banks.

The rationale for distinguishing banks based on their total assets, is that size is an indicator highlighting the firms that are most central to the economy’s function. Here, the social network ties between the directors of those firms, but also between the directors, top regulators, and top politicians, are tightest (Young, 2015). A prominence argument, as Young holds, means that policymakers will treat firms

at this level differently, and be more attentive to their needs in the policy-creation process. He shows how the distributions of firms on modern economies track a ‘power law’ distribution, with a few highly prominent forms at the top of the distributions, and the smaller firms filling out the distribution and tails.

There are four BHCs in the US that fit this conception of prominence. These four, known as the ‘Big Four’, are Citigroup, Bank of America, Wells Fargo, and JP. Morgan, and in 2014 had approximately \$4.6 trillion in deposits between them - almost 45% of the total deposits for all US commercial banks (Nasdaq.com, 2015). The Big Four are, in Hamel’s (1996) classic typology, neither *rule takers* –those that pay homage to their industrial “lords”; nor *rule breakers* –malcontents, radicals, upstarts. Rather, the Big Four are *rule makers*, the oligarchy that created and maintain the industry, and that protect industrial orthodoxy (which is of course of their own making). Therefore, they hold all the characteristics to be defined as structurally prominent in the US banking industry. As such, I will argue that it is these banks that are the most successful in lobbying the Fed on monetary policy.

The process of financialization has resulted in a change in large banks’ material interests and motives, creating a division between large banks and small banks. The move from relationship-based, patient banking (Pepper D Culpepper, 2011) to the shareholder-value model, is illustrative of this division. For example, with regard to non-interest income, two divergent strategies can be observed in US banking activity (DeYoung & Rice, 2004). First, for large banks, the

most profitable strategy is to take advantage of their economies of scale in the creation, servicing, and securitization of consumer loans. Competition is fierce in this market, so profits are not derived in the main from interest-income, but rather the fees that can be charged for providing the services. Since the repeal of Glass-Steagall, non-interest income is increasingly derived from non-traditional sources, such as securities underwriting, insurance sales, and retail brokerage (ibid). Second, and conversely, smaller banks operate in local markets where relationship-based banking is important, but also where the costs for depositors to switch to rival banks are high. Interest income continues to be the main profit driver for them. Thus, non-interest income is either less important for small banks, or unattainable because of their lack of economies of scale.

Furthermore, Esposito *et al.* (2015) and English *et al.* (English *et al.*, 2012) find that bank stock prices decline significantly following an unexpected increase in the level of interest rates. Declining share prices are taken very seriously in financialized economies where shareholder value has come to be the key driver of firm policy (Lazonick & O'Sullivan, 2000). According to this shareholder-value model, short-term profits driving share price rises and dividend payouts are the *sine qua non* of corporate goals. Therefore, a firm might lobby against a short-term interest rate hike if it could potentially cause a fall in their share price. In other words, the shareholder-value model that dominates large banks is the antithesis of the relationship-based model that drives smaller banks, leading to the conclusion that

pronouncements that banks always want higher interest rates (Woolley, 1984) should thus be taken with more than a grain of salt.

2.2.1 Banks' Interest Rate Preferences

Interest rates affect bank profitability in complex ways. Although negative interest rate shocks can increase bank profitability in the short-term, any advantageous impact dissipates the longer rates remain low (English et al., 2012b). Banks suffer from falling profitability during prolonged drops in interest rates in direct proportion to their dependence on maturity transformation (i.e., borrowing short and lending long), and deposit funding. Yet, maturity transformation activities are not so profitable for larger banks, who instead prefer to extract fees from customers rather than earning interest.

Banks can profit when they hold an excess of deposits in relation to their loan book, as surplus deposits are invested in short-term markets. As short-term rates rise, so does the yield—that is, the income return on an investment—on these deposits. However, as argued above, non-interest income is very important for large banks' profits, but not for small banks. Three types of non-interest income are significant with regard to higher interest rates: valuation effects on securities; hedging through derivatives; and fees and commissions (Borio et al., 2015a).

For example, fees and commissions represent more than 60% of total non-interest income for banks (and more than 90% of income during the crisis period). Types of fees include those directly linked

to lending and deposit activity (e.g., credit lines, transaction services), and those related to more investment-banking-type activities (e.g., trading, mergers and acquisitions, and market making). It is argued that in times of lower interest rates, professional services are more in demand because portfolio management is more necessary when the option for sufficient interest rate income is not available to clients (Albertazzi & Gambacorta, 2009). I argue that banks who provide services, and who profit more from non-interest areas of banking, would lobby for lower interest rates.

Banks must finance their investments via some form of debt, traditionally done in the form of deposits, but nowadays also done through various securities sold on the open market. When market interest rates fluctuate, so do the costs for banks to fund their activities; whereas retail banking prefers low inflation, investment banking conversely prefers low interest rates (Wheelock, 2016). Though interest income is an important driver of small banks' earnings, the largest investment banks fund their commercial activities through loans, and therefore seek low interest rates on those loans. Thus, financial institutions have differing inclinations in how they might want to see short to medium-term monetary policy playing out.

Another reason banks may prefer lower interest rates is that higher interest rates are consistent with concomitant higher rates of loan defaults. Banks with a high percentage of non-performing loans should be expected to be particularly sensitive to interest rates being raised. Especially in the aftermath of the crisis, when FAC members'

balance sheets would have included many non-performing loans, some banks' may have preferred to 'extend and pretend' (Barseghyan, 2010; Borio et al., 2015b), delaying the raising of interest rates until non-performing loans could be turned around, or worked off their balance sheets.

As interest rates fall, bank profits swell due to short-term gains in the value of collateral and lower default risk on loans repriced in response to interest rate decreases (IMF, 2017a). Rising interest rates can also affect profitability through two mechanisms: via liquidity spirals, where weakening net worth increases bank risk aversion, which in turn depresses the market value of assets and lending volumes; and via disinflationary spirals, whereby the value of cash increases due to its 'safe-asset' reputation (ibid, citing Brunnermeier and Sannikov, 2016). Banks' interest margins are practically independent of the value of market interest rates, because they can allow their own deposit and loan rates to rise and fall in response to the market. However, this flexibility is removed when interest rates hit what is known as the zero-lower bound (ZLB).

Bank numbers have been dropping steadily, from 14,500 in the mid-1980s to 5,600 in 2015, and bank mergers have been driving the decline (Kowalik et al., 2015). Larger banks benefit most from the scale economies resulting from efficient management of wholesale funding costs (IMF, 2017b), and low interest rates make mergers and acquisitions cheaper. Additionally, the possibility for economies of scale derived from more efficient deposit management would point towards consolidation as an attractive proposition also. Both these

scale efficiencies are advantageous for larger banks, and one might wonder whether larger institutions might use low interest rates to squeeze their competitors, or even acquire them completely. It is precisely this type of *strategic interest rate advocacy*—calling for rates to be lower in a market where only the fittest (or most diversified) survive—that this paper is interested in. But to show that lobbying is effective, it is necessary to demonstrate where advocacy diverges from economic orthodoxy, and this orthodoxy is exemplified by the Taylor Rule.

2.2.2 *The Taylor Rule*

In the US, Congress established the statutory objectives of the Federal Reserve’s monetary policy as threefold: maximum employment, stable prices, and moderate long-term interest rates. To achieve its interest rate goals, the Fed’s Federal Open Market Committee does so by raising or lowering the target for the federal funds rate. To achieve these aims, the Fed seemed to follow the so-called Taylor rule under Chairman Alan Greenspan’s tenure in charge¹ (Meltzer, 2014), and his successor Chairman Ben Bernanke argued that he hewed closely to an only slightly modified Taylor rule (Bernanke, 2015). The Taylor rule is a formula designed to provide recommendations for how short-term interest rates should be set by a central bank, to

¹ Alan Greenspan chaired the Fed from 1987 – 2006. His successor was Ben Bernanke, who was in office until 2012. He was succeeded by Janet Yellen, who served until 2017. Jerome Powell is the current Chair.

attain its statutory objectives. It is a composite measure that includes standard economic indicators, while also including an economic performance logic.

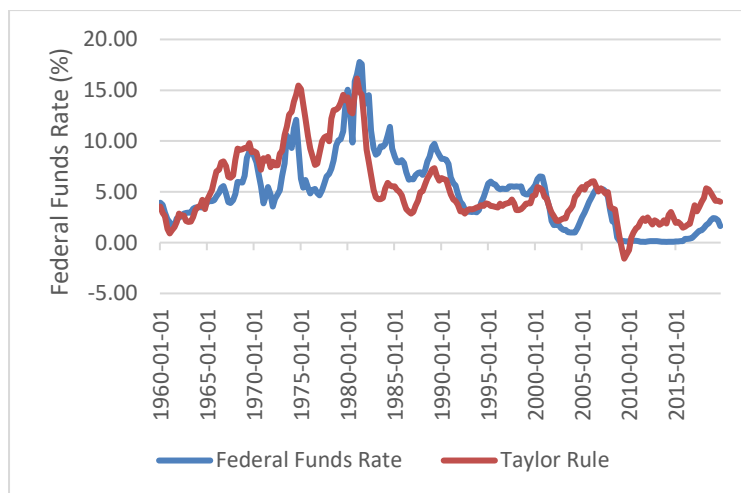


Figure 1: The Taylor Rule as a predictor of the Federal Funds Rate

The relationship between the rate based on the Taylor Rule and the actual Federal Funds rate set by the Fed is shown in Figure 1. Most economists agree that the Fed follows some form of Taylor rule to set policy (ibid), and to be fair, the Taylor Rule quite closely matches the actual Federal Funds rate. Yet, the correlation is far from perfect (0.73 before the crisis, and 0.31 after).² Though there clearly is scant

² For the pre-Crisis period, Pearson's Correlation Coefficient (ρ) is 0.73. For the post-Crisis period, Spearman's Correlation Coefficient (ρ) (used because the Fed Funds and Taylor Rule relationship is no longer monotonic after the crisis) is 0.31.

correlation after the crisis hit, where the Taylor Rule prescribed negative interest rates, the close relationship has rebounded since interest rates began to rise in 2016.

As can be seen in the graph above, the response to the financial crisis by the Federal Reserve (after bailing out the banks and providing an enormous liquidity backstop) was to drop interest rates to their lowest ever level, where they remained until well into 2016, creating an intense profit squeeze for most of these institutions, or so they would have one believe (FT.com, 2018). Given that the political power of finance over the Fed, (bounded only by congressional limits) is well established by Jacobs and King (2016), it begs the question that if finance is so powerful, and yet low interests rates are such a burden on their profit lines, then must reasoning regarding their acquiescence to Fed policy be couched in terms of noble behavior? A quick application of Occam's razor would suggest that perhaps a simpler explanation might be found, such as that banks may, from time to time, find it beneficial to have interest rates low. They would therefore advocate for their preferences, and the ideal forum for this would be the quarterly meetings of the Federal Advisory Council, where they are tasked with providing monetary policy guidance to the Fed.

If there is diversity in banks' interest rate preferences, combined with their privileged access to the Fed through the FAC, it is clearly worthwhile to check for even small adjustments to Fed policy that can be ascribed to FAC lobbying. It is in the margins, the ten or twenty basis-point movements away from the projected Taylor prescription

that we expect to find the influence of banks. What I would like to do is to strip away the Rawlsian ‘veil of ignorance’ advice that is the Taylor Rule, and see if we can pinpoint an effect that cannot be attributed to the economic indicators that are available to the Fed already, but rather to the banks sitting on the FAC’s unique preferences. To help explain how preference attainment comes about, the next section will detail the sources and consequences of banks wielding their political power.

2.2.3 The Political Power of Finance

The mechanisms through which members of industry generally shape outcomes to meet their preferences are their instrumental power (Miliband, 2009; Mills, 1956) and their structural power (Block, 1977a; Lindblom, 1977; Przeworski & Wallerstein, 1988). Instrumental power encompasses the numerous means, distinct from the core functions of the firm, through which business influences politics (P. D. Culpepper & Reinke, 2014). It is normally implemented via lobbying activities or campaign donations. Structural power, in turn, refers to the privileged role of those private-sector industries on which the state in which they are located rely heavily in order to provide employment and create economic growth. Governments may privilege these industries or firms by favoring them with key roles in policy deliberations, ensuring that their interests are safeguarded. This is particularly the case for financial firms, given how financial activities have now displaced manufacturing and other forms of industry and business as the

dominant force in the global economy (Bell & Hindmoor, 2016; Krippner, 2011).

Firms have more consistent and systematic influence when they display both types of power (Fairfield, 2010). Yet, both instrumental and structural power can provide them with the means to thwart, or cultivate, the type of policies they choose. Fairfield argues that possessing instrumental power involves having the capability for deliberate and often collective action in policy-making fora, whereas structural power entails apolitical, market-coordinated decisions in the economic arena. One might hence conclude that the financial sector can only yield structural power if firms coordinate. However, I argue that the structural power wielded by Big-Four firms does not depend on market-coordination—a Big-Four firm can make its own market. Rather, the four largest, i.e., most ‘prominent’ banks in the U.S. possess sufficient size, such that any singular market action by any of them is enough to create a market disruption that would resemble a capital strike, one that would necessitate considerable cohesion and coordination by multiples of smaller firms to replicate. What sets the very largest banks apart then, is that their structural power, their prominence within finance and therefore the economy at large, gives their singular instrumental actions the weight of a collective action by a sector of smaller firms. Their structural power enhances their instrumental lobbying power to an enormous degree.

As a result of financialization, banks have gained an alternative way of exercising power, which Braun (2018) calls their ‘infrastructural power’. His conceptualization of this subset of

structural power outlines how firms can exert control over the state if state agencies use markets to improve state control over the economy, and allow the markets to act as conduits of state action themselves. Much of finance's political power vis-à-vis central banks like the Fed lies in this symbiotic relationship, and central banks have a self-interest in acquiescing to finance's lobbying. Take for example the pivotal role the repo market now has in monetary policy. Over the last 30 years, central banks have increasingly turned to the repo market to facilitate liquidity and credit creation, and this process has inextricably linked the smooth functioning of central bank's monetary policy transmission channels to the health of the banking sector (Gabor, 2016). This symbiosis is the oxygen for politics and preference-attainment within monetary policy design, and a clear signal of the growth and entrenchment of the structural power of finance.

Turning to instrumental power, much has been written on the political power of financial firms related to their lobbying activities ((Mahoney, 2007; Posen, 1995; Wright, 1996). Such instrumental power is derived from providing expertise on complex financial instruments, through lobbying using the substantial funds available to Wall Street firms (Johnson and Kwak, 2010), onto more subtle forms such as the concept of the 'revolving door' from Wall Street to regulator, and back to Wall Street (Bó, 2006; Cornaggia et al., 2013). Instrumental power can further encompass firms' informal social ties to policy-makers and regulators (Seabrooke & Tsingou, 2009), or

firms providing policy advice, such as what happens quarterly at the FAC.

I argue, conversely to the literature, that banks activate their instrumental power at the FAC via their quarterly meetings with the Fed, where they provide policy advice—though those sitting on the council hold that their advice is given with no ulterior motive that might benefit them, even going so far as have a saying of ‘not talking your own book’ when giving advice at council meetings.³ But it is not enough to merely point to their giving of policy advice at Council meetings as evidence for the wielding of instrumental power. As outlined above, size is the single most important factor in determining the *effect* of banks political power. If it were just instrumental power that would suffice, then just being in the room at an FAC meeting, being any of the 12 banks that advise the Fed on Council meetings days would be enough. I argue that instrumental power needs to be augmented by structural power (arising from firm size) to be relevant.

The core argument of this paper is that banks have interest rate preferences, that they will advocate strategically for these preferences at the FAC, and that their size should matter with respect to their success in lobbying. The paper has outlined that though all banks have some structural power—derived from their privileged position in the economy—larger banks should have more power, commensurate with their structural prominence. Furthermore, the Fed, interested as it is in the health of its central monetary policy transmission

³ Interview I, Washington D.C., 2016.

mechanism, is open to these preferences being accommodated. Thus, it would seem plausible that the desires of larger banks would be taken more seriously, and perhaps given primacy over other pressing sectoral concerns, or even smaller banks who do not play such a vital role in policy transmission.

It is also reasonable to expect that banks use the privileged position they occupy in fora such as the FAC to convey these preferences, and employ their instrumental power to augment their structural power. I hold that the FAC is a prime location for banks to exert their instrumental power through lobbying and their policy advice. I also expect that it is the combination of structural power (prominence) and instrumental power (membership) that will lead to the largest predicted effect in the model. Therefore, the first hypothesis reads that:

H₁: A Prominent bank sitting on the FAC will have a larger predicted effect on the Federal Funds rate.

Additionally, it is useful to see how this influence of banks at the FAC might vary over time. According to Baker (2010), there is a lifecycle of regulatory capture, whereby in boom periods regulators feel unable, or are unwilling (Pagliari & Young, 2015; Seabrooke & Tsingou, 2009) to produce a narrative of events that would run contradictory to feel-good stories that emanate during high-growth periods. Counter-cyclical narrative issues also have little public salience, given that the distributional issues that build before a crash

happens are little understood by the public. This leads to an overall more permissive environment, which I expect banks would use to lobby more successfully for their preferences. After the crash, however, regulation becomes high in public salience, and banks should find lobbying more difficult. Yet, this period of high salience is limited, so we should see salience waning after the financial crisis has ended. For this paper's purposes, the crisis-period is between 2008 and 2012. Before and after that period is a non-crisis period. Therefore, the second hypothesis reads:

H₂: Prominent banks sitting on the FAC will have a larger predicted effect during non-crisis periods on the Federal Funds rate.

Finally, though interest income remains a primary driver of profits for the banking industry as a whole, it is also true that the largest banks have diversified such that non-interest income is potentially as important for them, if not more so. Also, given the perilous position that some financial institutions found themselves in in the lead up to, and following, the financial crisis, this paper argues that banks who need to borrow to close funding gaps, or who wish to 'extend and pretend' until bad loan books can be deleveraged or until they come back above water, may lobby for lower interest rates. We can see this type of lobbying play out in two ways. The first, similar to how air resistance creates drag on an object in motion, lobbying can create drag on rising interest rates. The second would be if the

models were to make an explicitly negative predicted effect on the Federal Funds rate. Both of these effects would illuminate how banks have heterogenous interest rate preferences, that includes a preference for lower rates (rather than merely rates rising more slowly over time). Therefore, the third hypothesis reads:

H₃: Banks sitting on the FAC can have both a positive and negative predicted effect on the Federal Funds rate

2.3 Data and Methodology

This paper will employ a panel generalized least squares (GLS) random-effects regression. Following Stock and Watson (2020), a random effects model is chosen because I theorize that any key unobserved variables (such as lobbying capacity for banks, or the amenability of the Fed to take their preferences into account) change over time. I further confirmed this choice of random effects over fixed effects using a Hausman test (Green, 2008).

The dependent variable is the Federal Funds rate, the main instrument of the Federal Reserve to implement monetary policy. The data is the Federal Reserve's own data from its economic research division.⁴ This variable is differenced following a Dickie-Fuller test for stationarity and lagged by three months. This is based on Akaike's information criterion (AIC), and the Hannan and Quinn information

⁴ <https://fred.stlouisfed.org>

criterion (HQIC) tests. These tests back up the intuitive choice of three months, which is the interval of FAC meetings. Given that the dependent variable (the Federal Funds rate) is a monthly series, it was necessary to interpolate the independent variables, which were quarterly series, using cubic spline interpolation. Cubic spline interpolation is chosen because it allows for a good cross-sectional fit in a wide range of settings, especially when approximating economic functions (Bowsher & Meeks, 2008).

Following Brambor et al (2006), all constitutive terms are included in the panel interaction models, substantively meaningful marginal effects and robust standard errors are computed, and the paper focuses not on the coefficients in the regression tables to interpret marginal effects, but rather on the marginal effects graphs outputted by Stata. These are outputted using the Stata commands *margins* and *marginsplot*.

I measure banks' interest rate preferences through balance sheet variables that serve as policy preference indicators, which are then used in a factor analysis (outlined below). This paper uses five monetary policy preference indicators (summarized in table 13 in the appendix): Tier-1 leverage ratio, Loan to Deposit Ratio, Texas Ratio, Net-Interest Margin, and Non-Interest Income Ratio. For data on the monetary policy preference indicators, each member's Quarterly Call Report submission to the Federal Deposit Insurance Corporation (FDIC) was used. These reports were collated by a private financial services information company, who produced a searchable database. To ensure replicability, a random sample of call reports were double-

checked against the FDIC original records, and their database was consistently accurate.⁵

Reliable banking data is available from the FDIC from 2003 onwards. Therefore, the period of my study covers January 2003 to July 2019. As noted earlier, because of the ZLB period during the crisis where variation in interest rate policy was minimal, my sample is divided into three periods: pre-Crisis (January 2003 to December 2007); Crisis (January 2008 to December 2012); and post-Crisis (January 2013 to December 2019).

The moderating variables are membership of the FAC, and a bank's size (small, large, and prominent). As regards membership, 56 banks have sat on the FAC between 2003 and 2019. Some sat on the council for four quarters, some for up to 32 quarters. Membership data of the board of the FAC was obtained using the Federal Reserve's annual reports, which lists the FAC's members' names and bank.

The prominence variable is operationalized as a time-period when one of the 'Big Four' banks sit on the board of the FAC. A large sized bank is classified as a GSIB, that is, a globally systemically important bank, that is not one of the 'Big Four'. Big-Four banks, though also classified by regulatory authorities as GSIBs, are of an order of magnitude larger than non-Big-Four GSIBs in the US. Small banks are those who fall into neither of these two categories.

⁵ <http://www.bankregdata.com/about.asp>

For parsimony, two controls were chosen, a modified Taylor Rule, along with unemployment rate. The unemployment rate is a seasonally adjusted monthly index, and the Taylor Rule is a modified one that is suggested by Ben Bernanke (2015) as one approximating Taylor-type rules followed by Bernanke himself, and his successor Janet Yellen. The equation for calculating the Taylor Rule is:

$$a + 2 + 1 * (a - 2) + 1 * (b - c) / c * 100$$

where a is a personal consumption expenditure (PCE) index excluding food and energy, b is real gross domestic product, and c is real potential gross domestic product. Furthermore, Bernanke suggests that inflation be measured using a core PCE, rather than a GDP deflator (as used by Taylor in his original rule), and the output gap has a coefficient of 1.0, rather than 0.5.

2.3.1 Factor analysis

Five indicators were chosen to reveal a latent factor or factors that could reflect the interest rate preferences of banks. These five indicators were: loan-to-deposit ratio, Texas ratio, tier-one leverage ratio, net-interest margin, and non-interest income ratio. To improve interpretation in the graphs, the three variables out of the five (loan-to-deposit ratio, Texas ratio, and non-interest income ratio) that have an expected negative linear effect on the dependent variable had their directionality in the scale reversed, so that higher or positive values are always expected to influence positively the interest rate preferences of banks.

Table 2 Pre-Crisis Factors Loadings

	Indicator	Scale	Traditional Factor
1.	Loan-to Deposit Ratio	(+)	- 0.67
2.	Non-Interest Income	(+)	0.74
3.	Texas Ratio	(+)	- 0.59
4.	Tier-one Leverage Ratio		0.52
5.	Net-Interest Margin		0.78

Note: (+) where scale has been reversed. Positive values indicate a preference for higher interest rates, and vice-versa.

Table 3: Post-Crisis Factor Loadings

	Indicator	Scale	Retail Factor	Investment Factor
1	Loan-to Deposit Ratio	(+)	-0.87	0.32
2	Non-Interest Income	(+)	0.69	-0.35
3	Texas Ratio	(+)	-0.02	0.89
4	Tier-one Leverage Ratio		0.86	0.13
5	Net-Interest Margin		0.51	-0.66

Note: (+) where scale has been reversed. Positive values indicate a preference for higher interest rates. Rotation method is Oblimin (Orthogonal). Loading threshold is +/- 0.4 (indicated in bold).

Following Acock (2018), given that all five indicators should measure one concept (interest rate preference), factor loadings were estimated using *principal-component factor analysis* (which is a distinct method, not to be confused with *principal component analysis*). This method best explains the total variance for the five indicators. The factor loading threshold chosen is 0.4 as per Acock (ibid), and the oblique rotation method *oblimin* was selected to allow the indicators to correlate. Tests on the indicators in the pre- and post-crisis time periods passed Bartlett's test of sphericity (p-value = 0.00; H0: variables are not intercorrelated), which tests the hypothesis that the chosen indicators are unrelated and unsuitable for detecting latent structures. Additionally, in tests on both time periods, a high Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (pre-crisis KMO

= 0.8; post-crisis KMO = 0.7) was calculated. This statistic also indicated suitability for the detection of latent structures, with values greater than 0.6 indicating suitability for factor analysis.

The factor that is returned for the pre-crisis period can be interpreted as a scale, with banks with worrying loan-to deposit and Texas ratios ranking lower towards the negative end. At the positive end, banks where conventional forms of profit earning that tend heavily towards interest-based forms of income (non-interest income scale being reversed), and with stable funding (based on a positive tier-one leverage loading) are represented. This factor may also be interpreted alternatively as a scale running from risk-inclined banks on the negative end, to risk-averse banks on the positive end. That there is so much diversity contained within one factor here could be explained by the fact that, given the repeal of Glass-Steagall in 1999, by the beginning of our sample in 2003, the process whereby multiple banking functions were brought under one roof, had already begun. This factor is labelled *traditional* because though it leans heavily towards interest-earning as the dominant profit center, and thus would indicate a preference for higher interest rates, there is conflicting preference for lower interest rates at the negative end of the scale, indicated by the negative values for loan-to-deposit ratio, and Texas ratio. Thus, we can see the factor as telling the story of the pre-crisis period, with banks having conventional interest preferences based on their profit-centers, but some leaning towards dragging rates down, because of their worrying balance sheets.

For the post-crisis period, two factors are returned by the analysis. These two factors are labeled *retail*, and *investment*. These labels indicate the dominant profit centers of the type of banks they represent (interest income in retail, versus non-interest income in investment). These labels should not be taken as being overly deterministic of precisely what a bank's corporate approach might be, but rather it provides a useful heuristic of the macro preferences between types of banks.

The *retail* factor has some similarities to the *traditional* of the pre-crisis period, and as can be seen from table 3, the two have a relatively high correlation of 0.6. This is because this factor also loads highly on positive values for the net-interest margin indicator and non-interest income (scale reversed) indicators, and the tier-one leverage ratio indicator. Both suggest traditional interest rate preferences, and conservative and prudent balance sheets. At the negative end of the scale, loan-to-deposit ratio dominates, suggesting that this factor also includes banks who have balance sheets that are not as healthy as perhaps would be desired by investors or regulators.

The second factor, *investment*, makes for an interesting contrast to the *retail* factor. Texas ratio loads positively on this factor, which indicates, when positive, that a bank has a majority of good-performing assets, and that it has a low probability of suffering a balance sheet shock from assets failing. On the negative end of the scale, we have net-interest margin and non-interest income. Both suggest that traditional forms of bank profitability, i.e., interest income, are not so influential in this factor. Though non-interest

income only loads at the bottom end of the inclusion threshold at 0.4, that net-interest income loads at -0.7 corroborates the analysis that non-interest income streams are dominant for this factor – signaling that this is related to how investment banks have successfully deleveraged loans made before the financial crisis, and now seek non-traditional forms of revenue. In sum, for the pre-crisis period, we have an expected result, yet for the post-crisis period, the results are rather counter-intuitive. Pre-crisis, the repeal of Glass-Steagall meant that investment banks and retail banks could merge, and we see this play out in the ‘broad church’ that is the *traditional* factor. Yet, after the crisis, two factors emerged, whose structures indicate interest-rate preferences that align with the dichotomous understanding of banking—retail and investment—that appeared obsolete after Glass-Steagall was rescinded.

For robustness checks, two more factors were computed: a factor covering the whole period from 2003 to 2019, and a factor that just covered the financial crisis period of 2008 to 2012. Though the structural forces that lead to the financial crisis, and how banking has changed in its aftermath, is central to our analysis, the period between 2008 and 2012 provides very little analytical leverage in understanding how banks might influence monetary policy. This is because in this period, interest rates dropped to what is known as the zero-lower bound (ZLB), which is functionally a zero percent interest rate. Because there was such little variation in interest rates during this period, and the mechanisms by which central banks were forced to drop their rates to zero and in some case below are well understood

and explained elsewhere (Gambacorta et al., 2014), this paper is limiting the in-depth analysis to the periods before 2008, and after 2012.

2.4 Results

The three factors serve as the main independent variables in the model for two main time periods (pre-crisis and post-crisis), and the model predicts the effect of these three factors on the dependent variable (the federal funds rate) when the factors are interacted with the bank's size (small, large, and prominent) and whether the bank is sitting on the FAC at the time. Full results are found in the appendices (models 1-9, in tables 7, 8, and 9 in appendix), with the main results reported in figures 2, 3, and 4 below.

Figure 2 shows the three-way interaction between the factor *traditional*, sitting on the FAC, and the relative size of the bank (in this case prominent). Figure 2 is drawn from the regression results in table 1 in the appendix (model 1), and it shows that for banks in the pre-crisis period, it is only prominent banks, as we move along the scale of the traditional factor, who seem to be able to influence the Federal Funds rate.

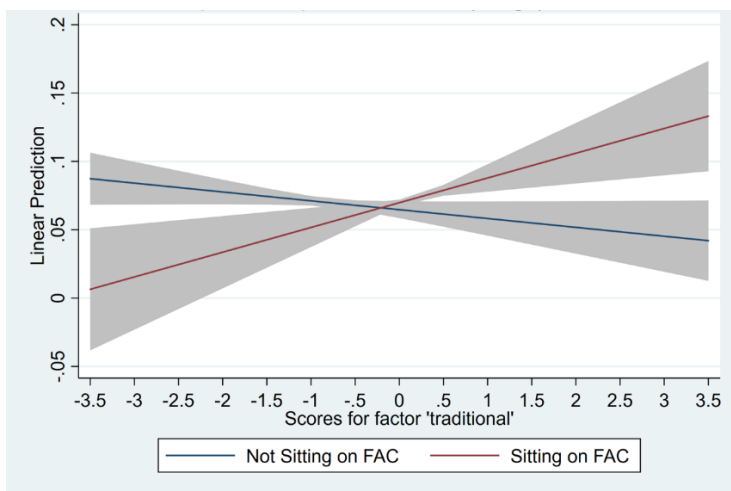


Figure 2: Pre-Crisis Prominent Bank

We can see how this plays out across the range of the *traditional* factor in figure 2, which highlights that the capacity of prominent banks to affect the federal funds rate seems further conditioned by them sitting on the FAC. Figure 2 shows a rather flat line for those not sitting, which is in stark contrast with the steep line estimated for those sitting.

Turning to how to interpret the *traditional* factor, we can see that on the negative end of the scale, where loan-to-deposit ratio and Texas ratio dominate (both indicators of troubling balance sheet issues, and suggesting a preference for lower interest rates), there is a lesser, or zero, predicted effect on the dependent variable. This makes intuitive sense, given the timeframe. Before the financial crisis broke out, banks certainly were developing problems on their balance

sheets, but were not recognizing them as potentially disastrous problems until the crisis broke out proper in 2008. Therefore, we can expect that this end of the scale would produce less of a predicted effect for a bank lobbying the Fed at the FAC.

Moving towards the positive end of the scale for the *traditional* factor, bank profitability via interest earnings, that is, the traditional means of bank profitability, shows a clear predicted effect. Specifically, the more a prominent bank sitting on the FAC earns its profits via interest income, the likelier it is that the Federal Funds rate will rise, in the pre-crisis period.

Ceteris paribus, there is an effect for prominent banks, regardless of sitting on the FAC (though the confidence intervals are too wide to make a concrete appraisal of the direction of the linear predicted effect). However, in the pre-crisis period, membership plus size is what is important. To put this in theoretical context, structural power (indicated by bank size) matters, but to be truly effective, it must be activated by instrumental power. Instrumental power, indicated by FAC membership, is not enough in the pre-crisis period, as can be seen in the absence of an effect for small or large non-prominent sized banks.

The main take-away from the pre-crisis period is that prominent banks dominated in terms of attaining their preferences, with not even large non-prominent GSIBs seeming to be able to influence the Fed. The looming Texas ratio problems of some banks did not translate into preference attainment, either because of lack of success or more likely, failure to recognize the problem.

2.4.1 Post-Crisis Interactions

For the post-crisis period, there are two factors, *retail*, and *investment*. Figure 3, as expected given the similarity between the *retail* and *traditional* factors, is similar to figure 2 in many aspects, with the largest predicted effect reserved for banks on the positive end of the scale. A positive score on the *retail* scale indicates traditional banking earning profits from interest income, with negative scores on the *retail* scale indicating worrying loan-to-deposit ratios. Both for banks who do and do not sit on the FAC, the effect on those banks who score on the negative range is either negligible or zero.

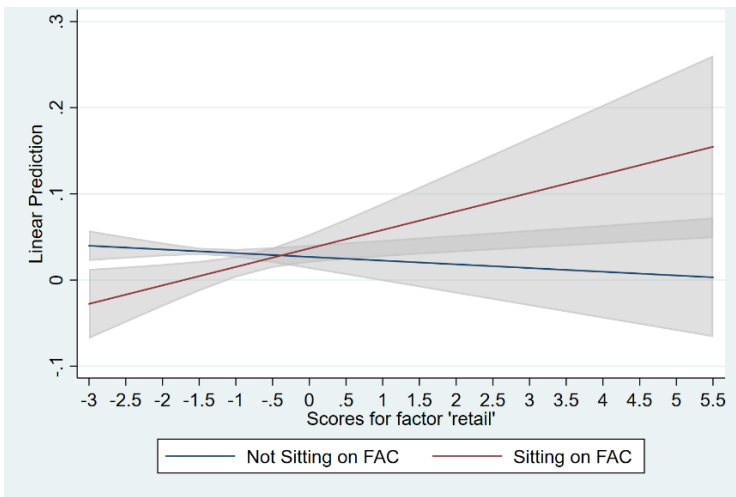


Figure 3: Post-Crisis Prominent Bank

Though the predicted effect for banks that score on the positive range is larger, the overlapping confident intervals shows that we cannot say that the effect is larger than for banks who do not sit on the FAC.

Thus, this shows the instrumental power of banks displaying the *retail* factor is weak.

The second post-crisis factor, *investment*, presents a strong and clear predicted marginal effect along both the positive and negative ends of the scale, seen in figure 4 below. This is the only figure from all the models run where a negative linear prediction is statistically significant, that is, a preference for interest rates to be lower can be inferred from the predicted probabilities graph. For this factor, where the scale is negative, net-interest margin dominates. Banks that have low net-interest margins are those who do not derive as much profit from interest-earning activities as those banks with a higher net-interest margin. These banks with low net-interest margin are usually larger, as these have diversified into alternative revenue streams.

Yet, this is not to say that conservative banking is absent from this factor. As with all the factors that have been significant for large banks, variables that indicate conservatism in banking are still important, and this can be seen in the clear effect that the Texas ratio, in the positive part of the *investment* scale, plays on the dependent variable. A high Texas ratio (note: reversed) indicates that bank has been prudent with the loans it has made, and may have successfully deleveraged any underperforming loans on its books after the crisis.

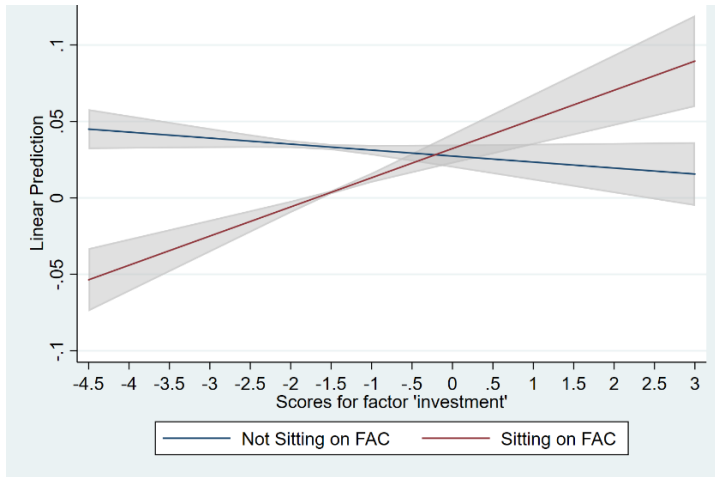


Figure 4: Post-Crisis Prominent Bank

Turning to how these results relate to the hypotheses, for hypothesis 1, it is evident that only prominent banks, in the main, have predicted effects across the scales of the three factors. As can be seen in tables 6-8 (figures in appendix), the effects of either small or large-sized banks are either statistically insignificant, or as can be seen in figure 5, negligible when compared to a bank not sitting on the FAC. Therefore, it seems apparent that there is a robust prediction that the prominence of a bank is a measure of its structural power to affect the federal funds rate.

However, there is also the additional membership component to hypothesis 1. Evidence for how membership of the FAC is crucial can be seen playing out across figures 2-5, with non-members of the FAC (prominent, large, and small) having little capacity to effect change

on the Federal Funds rate (as indicated by the flat lines on the figures). On balance, in terms of the magnitude of the predicted effects, the evidence points to the confirmation of hypothesis 1, that size and membership matter. That is, the models predict that structural power needs to be augmented by instrumental power in order to be successful in banks achieving monetary policy goals.

Moving on to hypothesis 2 and models 1, 4, and 7, we can see that the coefficients of the three interest preference factors (*traditional*, *retail*, and *investment*) are roughly similar (Beta = 0.024; 0.023; and 0.025, respectively, all with $p < .01$). The coefficient for the crisis period, though of a similar size, is negative and not significant (Beta = 0.023, $p > .1$), which can be seen in figure 6. Therefore, this confirms hypothesis 2 that there is a larger predicted linear effect in non-crisis periods than during the financial crisis. Interestingly, comparing figure 2 to figure 5, the predicted effect of large prominent banks sitting on the council is more consistent over the range of the *investment* factor than for the *traditional* factor. In figure 2, though the predicted effect at the positive end of the scale is larger for the *traditional* factor as compared to the *investment* factor, it is not possible to be assured of the size of the predicted effect at the negative end of the *traditional* scale, given that the confidence intervals encompass the zero line.

What can be inferred from this is that the period of ‘quiet politics’ (Culpepper, 2011) that was evident in the pre-crisis period seems to have returned in earnest, and for prominent banks sitting on the FAC that exhibit the *investment* factor, the predicted effect is even

more consistent than for prominent banks before the crisis. Certainly, as can be seen by the successful, and somewhat *sub rosa* negotiations for an early financial sector carve-out in the Brexit negotiations (Kalaitzake, 2020), the instrumental power that is necessary to augment structurally prominent banks lobbying on monetary policy seems to have recovered and returned in full.

Turning to hypothesis 3, for the pre-crisis period—the *traditional* factor in figure 2, the effect is not significant where the linear prediction is negative. This result is repeated for the post-crisis factor *retail* found in figure 4, which makes sense because *traditional* and *retail* are highly correlated. Yet, for the post-crisis factor *investment* found in figure 5, we can see a clear negative linear effect on the federal funds rate when the range for the *investment* factor is between -2 and -4.5 (when a prominent bank sits on the FAC). It is indisputable that many banks prefer higher interest rates, given that most banks earn the majority of their profits from interest income. What the results above show is that for prominent banks who exhibit the *investment* factor, there seems to be an engagement of instrumental power for banks who score across the scale of the factor, such that a clear negative predicted effect on the Federal Funds rate can be observed. This result confirms hypothesis 3, that banks can have both a positive and negative predicted effect on the Federal Funds rate. Whereas hypotheses 1 and 2 related to the magnitude of the predicted effects, hypothesis 3 adds to this by making inferences on a second level, that of preferences for both higher and lower interest rates.

2.5 Conclusion

The aim of this paper was to seek a re-interrogation of a financial forum that for too long has been dismissed as irrelevant. In doing so, the intention was to uncover how banks' instrumental and structural power affects how successful they are at lobbying, how this power ebbs and flows over time, and whether, in fact, banks have heterogeneous preferences for monetary policy, and not merely always a preference for higher interest rates.

By delving into the balance sheets of a wide spectrum of financial institutions, from small local banks to their globally significant brethren, some interesting results were uncovered. The first result is that the Federal Reserve listens to large banks more than smaller banks. This is unsurprising, but disheartening, because the needs of Wall Street and Main Street rarely go hand in hand. What is interesting is that the results show that merely being classed as 'globally systemically important' is not enough to bend the ear of the Federal Reserve.

There is confirmation of the waxing and waning of instrumental power with regard to success in lobbying at the Fed. Though instrumental power was high before the crisis, it diminished considerably during the financial crisis before rebounding again, and post-crisis, from 2013 onwards, instrumental power again seems necessary, in that its combination is required to augment banks' structural power. As noted by Fairfield (2010), structural and instrumental power need not covary, yet the results presented in this paper show that though we are moving back into a period of quiet

politics where structural power should not be magnified (Block, 1977b), the evidence demonstrates that prominence plus membership after the crisis produces an even stronger predicted effect, across a range of the *investment* interest-preference factor that indicates highly financialized banks. This is borne out by what we know regarding the resurgence of the largest banks in the US after the crisis (Ioannou et al., 2019) which only seemed to make those remaining (those now truly too-big-to-fail) even stronger.

This entrenchment of the power of the very largest banks is important, because large banks have interest rate preferences that do not necessarily align with small banks. This is not to say that they always prefer lower rates, as they also may use their influence to create ‘drag’ on rates as they rise, slowing the rate of increase. This is particularly relevant for the literature on financial lobbying, as it opens a new area of analysis: monetary policy. But this also highlights how non-prominent banks simply do not have the political weight to counter prominent banks. The FAC should be the ideal forum to invoke instrumental power in the form of close-contact lobbying, but smaller firms simply do not seem to have the structural importance necessary to bolster their instrumental power. Thus, because this paper shows that it is only the preferences that the very largest banks have that win out, it points to a difficult possible future for smaller banks, those not yet already acquired by larger banks. How this lack of interest rate preference attainment affects smaller banks is an important avenue of future study because the health of smaller banks rather than Wall Street is closely tied to the health of Main Street and

the real economy. Furthermore, future study should also be directed towards whether the results shown here can be replicated for both the European Central Bank—and more pressing given the somewhat unsure footing of the City of London regarding Brexit—the Bank of England.

3 Power Politics in the Taxation of Transnational Corporations

Abstract

US economic policy is commonly seen as driven by corporate influence rather than electoral competition, with policymakers seeming more responsive to the needs of large corporations than voters. A global minimum tax rate on foreign-earned profits of US corporations, as suggested by the 2021 Biden tax plan, promised a fundamental change to this understanding. Yet the Biden tax plan is not a *fait accompli*. Due to deep political polarization, the Biden plan faces enormous challenges to become law. Even though the US enjoys a preponderance of power in the foreign policy realm, this power can be rendered moot by domestic political intransigence. The Biden plan is not only a radical departure for the US, but also for countries that have come to rely on US Foreign Direct Investment (FDI) for large portions of their domestic tax-take. The Biden plans shows that these states' growth models, dependent on US FDI continuing to flow to them, may be built on pillars of sand. Given that tax-paying is often used as a signifier of infrastructural power, and taxation has been called the 'least likely case' of state capacity decline, studying how the Biden tax plan has effects both domestic and internationally will allow for a greater understanding of the conditions under which consolidated infrastructural power may be merely contingent. This paper will investigate this using a diverse case methodology focussing on the US and Ireland. In doing so, this paper seeks to understand how variation in levels of both foreign policy power, and infrastructural power, affects how states make corporation tax policy. This paper highlights that countries with low levels of foreign policy power may not be able to protect the conditions that enable their infrastructural power, rendering it dangerously exogenously contingent. In addition, I aim to highlight how political polarization can render the infrastructural power of even large states such as the US endogenously contingent.

3.1 Introduction

In April 2021, the then-newly elected President of the United States (US) announced a plan to revolutionize the corporate tax system in the US by adopting a minimum taxation rate for US corporations on foreign-earned profits. The plan is remarkable for two reasons: First, that it came so quickly after the 2017 Tax Cuts and Jobs Act (TCJA) was signed into law by former President Trump; and, second, given Biden's voting record and advocacy for bipartisanship, one would expect the new administration to be rather moderate-leaning (Brooks, 2020; Kruzel, 2019). The TCJA was the first major revision of the US tax code since the 1960s, and the preceding decades of relative stagnation and intransigence in how the US taxed its transnational corporations (TNCs) abroad suggest that changes to tax law rather proceed at an evolutionary, rather than a revolutionary speed.

By contrast, the Biden administration proposed two major projects with an expected cost of approximately 3.5 trillion dollars, with the bill to be footed in a large part by taxing those corporations who for so long have managed to keep their worldwide profits out of US coffers. The 'American Jobs Plan' (White House, 2021b), which comprised \$2 trillion USD in planned spending on infrastructural renewal, such as roads, bridges, increasing broadband access and modernizing the power grid, amongst other proposals. A sister proposal, called 'Build Back Better' (White House, 2021a) proposes investments in the production of clean energy and mitigating climate change, and investments in social infrastructure and the 'care economy'. The 'Made in America' tax plan (US Treasury, 2021) is a

complementary proposal which aims to pay for these two programs, by making “American companies and workers more competitive by eliminating incentives to offshore investment, substantially reducing profit shifting, countering tax competition on corporate rates, and providing tax preferences for clean energy production”. It outlines how corporation tax revenues halved from 2% of GDP in the years preceding the enactment of the TCJA, to 1% following the TCJA’s enactment. It outlines how corporation tax revenues halved from 2% of GDP in the years preceding the enactment of the TCJA, to 1% following the TCJA’s enactment. To pay for the sweeping proposals contained within the American Jobs Plan, it would be necessary to dramatically increase the tax take from its corporations. This tax plan seems to contradict those, such as Hacker and Pierson (2014, 2021), who have long argued that US economic policy is primarily driven by corporate influence. That is, that the instrumental power of business was more important in shaping that state’s policies than electoral competition—economic policy in the US was ‘organized combat’ in which business ruled supreme, making both parties in the US responsive to the needs of business rather than voters, regardless of electoral results. How then are we meant to make sense of this dramatic policy shift?

I argue that the Biden plan to tax the foreign profits of its corporations at a global minimum tax rate is the result of an increase in the politicization of tax avoidance by corporations. This politicization has its roots in the 2008 financial crisis, where the collapse in public finances and ensuing austerity led to public outcries

over allegations of tax abuse by corporations. This was driven in part by tax scandals such as Luxleaks in 2014 and the Panama Papers in 2016, which detailed the means corporations used to evade taxation (Dover, 2016; Roland & Römogens, 2021). This politicization led to a ‘structural break’ (Christensen & Hearson, 2019) in the politics of tax governance, which drove the creation of the Organisation for Economic Co-operation and Development’s (OECD) base erosion and profit-shifting process (BEPS), which set up an international framework to combat tax avoidance by multinational enterprises. It further made policymakers in the nascent Biden presidential campaign, who then came to power in 2021, recognize that it was necessary to rebalance state priorities, with the balance of power shifting towards the US *state*—and waning away from protecting the interests of US transnational corporations.

In theoretical terms, these developments can be seen as a reorientation of US foreign policy: away from using its structural power to sustain a tax regime that was to the benefit of its corporations, and toward a foreign policy agenda (in the area of global taxation) to aid in revitalizing what Michael Mann termed a state’s domestic ‘infrastructural power’ (IP). He defined this as any state’s “institutional capacity...to penetrate its territories and logistically implement decisions” (Mann, 1984, p. 113). In other words, the Biden administration’s broadly defined domestic renewal goals (roads, bridges, clean energy, etc.), to be paid for by the taxing of its corporations’ overseas profits, was to take precedence over the advantages the US reaped in the international economy by having its

top corporations derive scale efficiencies, and outcompete foreign competition, due to not having to pay tax on much of their overseas profits.

In international relations (IR) literature, power is traditionally defined using a military oriented, resource-based framing that sits easily within a realist conception of how states interact with each other (Carr, 1964; Mearsheimer, 2012). This paper does not privilege the realist understanding of power, but instead uses a broader understanding of power exercised outside the state, following Barnett and Duvall's typology (2005), outlined below. In contrast to IR conceptions of power, Michael Mann looked not at how power shapes inter-state interactions, but rather at a state's capacity to wield power domestically, its spatial reach within the bounds of its jurisdiction that he termed 'infrastructural power' (1984). Because this paper will juxtapose infrastructural power with power exercised outside of the state, to aid comprehension I will describe all forms of power exercised outside the state as foreign policy power (FPP). In doing so, I aim to explore the dynamic between these two distinct sources of power, and show how there can be a contradiction between capabilities and outcomes, when a state is rich in one type of power, but not the other.

To illuminate this empirical puzzle between capabilities and outcomes, this paper will explore whether a state's foreign policy power can contribute to the consolidation of a state's domestic infrastructural power. I argue that strong FPP can consolidate *exogenously contingent* IP, which is IP dependent on a state

successfully navigating international systems to maintain its infrastructural power, but not *endogenously contingent* IP, which is dependent on the smooth functioning of a state's domestic systems to maintain IP consolidation.

The aim of investigating the relationship between infrastructural power and foreign policy power is to highlight that though the US' FPP is successfully working in service of negotiating global tax reform that is intended to pay for the 'Made in America' plan, the Biden tax strategy is still not a *fait accompli*. While the US is preeminent in the global financial architecture and financial policymaking, deep political polarization at home results in domestic policymaking and legislation being a quagmire of stymied, vetoed, and filibustered bills. Though it would seem that passing domestic legislation—even with a slim majority in each house—would be easier than herding the G7 and G20 towards a common position on taxation of foreign profits (as happened in July of 2021), intense ideological and affective polarization makes this not the case. This profound polarization, driven by a decades-long 'plutocratic takeover' of the Republican party in the US (Hacker & Pierson, 2021) has made the passing of bills with large bipartisan appeal (such as taxing corporations) unlikely at best. In other words, polarization means that though the US's foreign policy power (FPP)—power reproduced external to the state—is high, its end-product is in service of policies that are dependent on getting buy-in from elites that may not benefit from the decision.

In addition, this paper seeks to understand whether the states most affected by these proposed changes to the global tax architecture have the foreign policy power to mitigate the effects of the Biden plan on their domestic infrastructural power? I will outline how the US' policy preference reorientation, and the resulting new global tax landscape, comes at the cost of severely reducing the tax base—and therefore diminishing the infrastructural power—of states who have developed highly specialized niches in the global economy., such as Ireland, Switzerland, and Singapore. These states, known as off-shore financial centers (OFCs), have an economic growth model reliant on attracting US foreign direct investment (FDI) in return for state-supported policies of cultivating and sustaining tax avoidance strategies (Baccaro & Pontusson, 2016; Regan & Brazys, 2018), and thus cannot easily pivot to an alternative growth model should these tax policy changes comes to pass. Therefore, I seek to understand how the differing levels of foreign policy power in OFC states and the US affects how consolidated their IP is.

The next section begins with a discussion of what state power is, and how theories of foreign policy power and infrastructural power can be wielded by small states and great powers alike. Methodology and case selection is followed by an empirical section, outlining how these theories of domestic and foreign policy explain why Biden's tax plan is such a fundamental shift for US domestic and foreign policies, and why its implications are so far-reaching for OFC states. A conclusion follows.

3.2 Power as a tool of domestic and foreign policy

3.2.1 Infrastructural Power

Michael Mann first used infrastructural power to successfully explain the evolution and successes of the modern state. He saw it as a form of state power distinct from a despotic or pre-industrial *power-over*, or the more commonplace understanding of state power which was merely distributive or zero-sum in practice (1984). Since he first theorized infrastructural power, it has been used to explain weak or failed states in the developing world (Lucas, 1998), the failure of some states to develop as predicted (Evans, 1995), or to explain contemporary power imbalances between industrial states (Weiss, 2005).

Central to Mann's theory of infrastructural power is his understanding of power as a 'two-way street', radiating out from the state but also back inwards from civil society. He saw the modern bureaucratic state as garnering power relationally, in an ongoing negotiation with civil society based on consent and legitimation. In recent time, scholars have expanded this understanding of a two-way street to include markets and firms, along with civil society. For example, when states harness financial markets as a means of propelling state interests, it is a successful method of consolidating state capacity (Braun, 2018; Konings, 2008; Krippner, 2005). If we think of infrastructural power, as defined by Weiss and Thurbon, as a state's domestic "capacity to penetrate society, to extract and deploy resources in the territory over which it rules, and thereby implement

logistically its decisions throughout the realm” (2018, p. 780), two issues that relate directly to this paper are apparent. The first is that extracting resources needs to be done fairly, that is, to not allow corporate actors to avoid taxation. If corporate actors are not paying a fair share, even if this is done to the letter of the law, then this reduction of income reduces infrastructural power. If the amount of tax avoided is substantial, then infrastructural power is diminished substantially. The second issue regards how if society is to be penetrated and decisions implemented, an obvious large impediment to this is extreme ideological and affective polarization, resulting in viewing the decisions of the ruling party as illegitimate.

Seeing infrastructural power as a two-way street is important because corporate interests, though very important to the making of state policy (Lindblom, 1977; Swank, 1992), are not deterministic of it, and therefore the priorities of instrumentally powerful corporate interests often do not necessarily align with those of the state. This is a problem that is particularly acute when it comes to the issue of corporate taxation, given how polarization in the US is driven in large part by the Republican Party’s embrace of plutocracy and right-wing extremism, combining extreme tax-cutting with race-baiting and outrage-stoking (Hacker & Pierson, 2021). Thus, it seems clear that this heady mixture does not bode well for any plan to regularize the tax affairs of the country’s largest corporations, regardless of how powerful the US’s foreign policy power might be.

3.2.2 *Foreign policy power*

I contrast power that is produced domestically (infrastructural power) from power reproduced external to the state, which I refer to as foreign policy power (FPP). My understanding of FPP uses Barnett and Duvall's (2005) definition and taxonomy of power, which comprises four distinct mechanisms of power that is wielded by states as a means to carry out foreign policy. FPP encapsulates both the macro overview of a state directing all or some of its resources towards a foreign policy objective, while also combining the foundational building blocks of any of the less *granular* conceptions of power, such as soft power (Nye, 2011), that have been theorized since Dahl first tried to define power in 1961, and that are beyond the scope of this paper.

Barnett and Duvall outline what I term FPP as “the production, in and through social relations, of effects that shape the capacities of actors to determine their circumstances and fate” (2005, p. 42). They see it being composed of four constituent parts: Institutional, productive, compulsory, and structural power. Institutional power is a form of indirect control that flows through the formal and informal institutions that mediates the relationship between two actors. Productive power then looks towards the construction of subjective meaning and significance. It centers on who are the gatekeepers of what is understood by terms such as ‘civilized’, ‘democratic’, ‘unstable’, and of particular importance to this paper: ‘tax haven’. Compulsory power is the direct control of one actor over the actions and conditions of another actor, but, as noted by Barnett and Duvall

(2005), compulsory power is best understood from the viewpoint of the recipient, rather than the wielder or creator. It need not be intentional (e.g., collateral damage victims) or material, but can entail the use of symbolic or normative resources.

Structural power, on the other hand, is the creation and re-creation of intrinsically related positions of domination and subordination that positions actors within a social relationship. Structures create differential advantages, disadvantages, and capacities, but also shapes an actor's self-understanding and interests, such that structural power often ends up working automatically. Weiss and Thurbon (2018a) have tried to integrate power reproduced external to the state into a definition of infrastructural power, but they did so by arguing that structural power is the outward or international expression of domestic infrastructural power; two sides of the same coin, separate but part of the same whole. Though I agree with the analysis that power reproduced external to the state is part of the same whole that includes infrastructural power, I would contend that their definition of structural power as "the ability to extend, through negotiation and consent, the reach and writ of the...state into foreign jurisdictions" (2018b, p. 780) is too broad to be classed as just structural power alone. In their definition, 'negotiation and consent' certainly contains structural power, given that negotiation between states implies a hierarchical relationship, but it also implies working through institutions and norms, which form the basis of institutional and productive power. Because compulsory power need not be intentionally produced to have its effect, 'consent' can masquerade as

structural power, and too broad a definition of structural power hides the real mechanisms at play.

In sum, what these four mechanisms encapsulated by foreign policy power have in common is that they are traditionally the tools of the powerful: Great powers control client states, they dominate institutions, their existence at the apex of structures gives these structures their hierarchy, and their possession of deep reserves of these three forms – compulsory, structural and institutional power – also allows them to be the gatekeepers of norms and subjectivity, that is, productive power.

3.2.3 Small state power

For small states, in turn, as noted by Rothstein (1986, cited in Long, 2017), it is lucky that the wielding of power is more complex than the simple ability of the powerful to get what they want. They can overachieve compared to what would be predicted based on their material resources, and often, a state only needs to be as powerful as is necessary to achieve its intended results. To this end, small states may need to specialize in forms others than the traditional, realist, sources of power. And, they may depend on exogenous options, such as coalitions with other small states, or a special relationship with a great power (Long, 2017).

Within the liberal global economy—as maintained hegemonically by the US—small states have shown the flexibility and strength to resist the buffeting of market forces. They develop specialized niches, and establish these niches as successful growth

models for their economies (Baccaro & Pontusson, 2016; Brazys & Regan, 2017; Katzenstein, 1985). In consequence, the liberalized trade regimes that the US hegemonically underpins gives comparatively more advantages to smaller nations than it gives to larger nations (Krasner, 1976).

At the same time, small states can play a central role in the creation of international institutions, such as the European Union (EU) institutions. They have helped craft and maintain rules and procedures that amplify small state power, such as preserving the veto within EU decision making, prioritized gaining influence within institutions that matter most to them (Panke, 2010), and have strategically parlayed their influence within the EU to influence agendas on issues that affect them in world politics (Ingebritsen, 2002, 2004). Furthermore, small states have successfully engaged in using their productive power to accomplish foreign policy goals, and they have acted as norm entrepreneurs in various areas such as climate change, and the delegitimization of the use of force.

Thus, we can see that on the foreign policy stage, states both large and small have means to project foreign policy power, and it is not so simple to proclaim in modern politics that the Thucydidian logic that “the strong do what they can and the weak suffer what they must” always holds. Yet, to understand the strength or precarity of a state’s power, one must look at both the external sources and the domestic sources of a state’s power, that is its foreign policy and infrastructural powers. So, how exactly are the two related? And, in

what way can power reproduced by a state externally ensure that power wielded by a state domestically remains consolidated?

3.2.4 Linking Foreign Policy Power to Infrastructural Power

To answer this question, I carry out a comparative case study using the *diverse case* methodology (Seawright & Gerring, 2008). This methodology requires at least two cases which are intended to represent “the full range of values characterizing X , Y , or some particular X/Y relationship” (ibid, pp. 300). This paper is seeking to understand an X/Y relationship where X is infrastructural power in developed nations, which I argue is either endogenously or exogenously contingent, and where Y is foreign policy power. I am choosing to study the infrastructural power of developed nations specifically, because I am interested in how seemingly consolidated infrastructural power might be contingent on other factors, rather than how infrastructural power is acquired in the first instance.

	High FPP	Low FPP
High IP	Pax Britannica / Pax Americana	Offshore Financial Centre (OFC)
Low IP	USA	Failed State

Table 4: Case Selection juxtaposing foreign policy and infrastructural power

Table 4 presents an overview of the relationship between FPP and IP. The aim is to pick cases that allow for achieving the largest possible diversity in levels of FPP and IP. The benefit of using the diverse case methodology is that having a full range of variation enhances the representativeness of the sample, compared to other methods for small-*N* sample—typical case study method included (Seawright and Gerring, 2008).

The High/High quadrant contains a ‘Belle Epoque’-era Britain, or post-World War USA. When a hegemon is at or around its zenith, it necessarily enjoys a preponderance of both FPP and IP. For example, in the decade following the second World War, the US enjoyed maximal foreign policy power, and in the era defined by Ruggie as ‘embedded liberalism’ (1982), it was preeminent in world affairs, such as the United Nations, the G.A.T.T., or the Bretton Woods system. In terms of infrastructural power, the US in this period also enjoyed very high levels, exemplified by the success of the ‘GI Bill’, the peace dividend of high levels of wages and employment, relative cultural cohesion (infamously facilitated by Jim Crow laws however). The Low/Low quadrant contains a stylized failed state, with little control over its domain, and little or no weight on the international stage. Therefore, these represent the maximum high and low scores a country one could select could have. However, for the purpose of this study, choosing diverse cases that are High/Low are preferred to High/High and Low/Low, because if a state is high in both FPP and IP, then it is harder to show a causal effect.

The international economic system is organized hierarchically around the US (Danzman et al., 2017), with 59 companies out of the top 100 largest companies in the world (by market capitalization), accounting for 65% of total market capitalization, including all five of the ‘Big Tech’ firms (PWC, 2021), and therefore it necessarily has maximal FPP in tax policy matters. I will argue that allowing US corporations to park profits offshore and therefore not pay tax to the US state, combined with intense political polarization at home means that the US has diminished IP, at least compared to its zenith as a hegemonic power. These two factors, tax and polarization, means that it is a good fit for the first diverse case.

OFC states have inevitably high IP in terms of tax policy, because of the need for state and civil society to pull together to create conditions successful to attract FDI. Yet, smaller states also have unavoidably low FPP, simply due to their economic size. Therefore, the ideal choice to study infrastructural power and foreign policy power in two diverse cases is the US and an OFC state, as here we would see two states grappling with issues while endowed with relatively orthogonal capabilities.

Taking the example of the new US taxation plans, I juxtapose the US trying to implement the plan domestically with that plan’s effect on an OFC state, Ireland—the second of the diverse cases. The Biden administration’s tax plan is worthy of interest because it not only highlights how the US is grappling with how its foreign policy power relates to its infrastructural power, but also because the Biden tax plan has potentially a direct effect upon Ireland, an OFC state with

very strong links, both in terms of history and trade, to the US, while also being part of the EU. Thus, studying the empirical puzzle of how the Biden tax plan plays out for both the US and Ireland is an ideal way to capture two diverse cases.

This paper seeks to understand how foreign policy power can be used to ensure infrastructural power remains consolidated. The implementation of the Biden tax plan is interesting because it involves both FPP and IP so fundamentally. First, in terms of FPP, because how corporations are taxed is now something that is contested internationally, especially since the of OECD BEPS process and the recent G7 and G20 summits on taxation in 2021. Second, in terms of IP, it is argued that taxation is a typical measure of state resources, and this is a measure of national resources that cross-cuts with ‘state capacity’ literature in public policy fields, where scholars such as Tilly (1978) see state capacity as the power to raise revenue. Furthermore, taxation has been called the ‘least likely’ case if one were to study a decline in state capacity. If a decline is measured in this area, then the rot has set in deeper in other areas (Weyland, 1998, cited in Rogers & Weller, 2014).

When trying to operationalize infrastructural power, Soifer argues that it can be analyzed using three distinct concepts, the applicability of which depends on the theoretical framework of the research (2008). The three concepts are: the state’s material capabilities, the state’s effects on society, and a state’s territorial control (*ibid*). To understand how FPP in the realm of tax policy can help consolidate IP, this paper will focus on two of the concepts: state

capabilities and its territorial reach. State capabilities focuses on the resources a state has at its disposal to implement its decisions, and this relates directly to how a state is able to tax actors within its jurisdiction. Territorial reach will be looked at through the lens of subnational variation, which considers how the power of a state may not be homogenous over its entire jurisdictions but may vary over differing social actors and locations (ibid), which will provide explanatory basis to understand how polarization affects IP.

3.3 Analytical tasks

Specifically, I am seeking to discover how changes in a state's foreign policy power affects the consolidation of its own infrastructural power, as well as the IP of other states and in doing so, I hope to explain how these factors affect how a state makes tax policy, and maintains its tax base. Two analytical tasks must therefore be answered to provide the evidence for my argument: (AT1) Can FPP consolidate IP that is *exogenously* contingent, and (AT2) can FPP consolidate IP that is *endogenously* contingent?

In order to answer whether FPP can consolidate IP that is *exogenously* contingent, I will use the national capabilities approach to operationalize consolidation. That is, can IP consolidation, measured in Ireland maintaining its tax revenues from US corporations, be protected by its foreign policy power? Implicit in the analysis of Ireland employing its FPP in service of maintaining IP consolidation is the state it is employing its FPP against, the US.

I therefore need to show that Ireland's position as an OFC was successful in consolidating IP in the first place, and that it is willing to use its FPP to defend itself against policy shifts that would harm its IP, such as US tax plans. I further need to show that rather than being in a situation that is relatively secure within the global system (which will be shown through highlighting the few exit options available to corporations based in Ireland), the complex interdependence of the global system actually increases the likelihood of instability for many small states. This will be shown using analyses of the US's outsized role in global FDI and credit production, and by highlighting how in a hegemonic system, complex interdependence means that effects are felt by those at the wide ends of the hierarchical pyramid, while the decisions made that create those effects are decided by those at the top of the hierarchy (Ba, 2021). It means that the US can make decisions that affect Ireland without it necessarily imposing costs on the US (as happened with the great financial crisis, for example). Additionally, Ireland's position within the EU will be analyzed to understand the depth of its FPP, specifically, the potential weakening of Ireland's ability to exercise veto options within the EU, which has been a vital previous bulwark against external interference in its domestic affairs.

The second analytical task is to investigate whether FPP can consolidate IP that is *endogenously* contingent. As with the previous task, I will operationalize consolidated IP using the national capabilities approach, that is, its ability to tax actors that it has legitimate tax jurisdiction over. However, in addition I will measure

IP consolidation in the US using the lens of ‘subnational variation’ (Soifer, 2008). This considers how the power of a state may not be homogenous over its entire jurisdictions, and that it may vary over differing social actors and locations. This conceptualization is generally employed when looking at, for example, the likelihood of rebellions or civil unrest within a country, such as when Rotberg analyses how failed states are not able to control their peripheral regions, and their authority ceases to be enforced over large swathes of territory (Rotberg 2004, cited in Soifer, 2008).

A common theme to this type of analysis would focus on the delegitimization of the state, and the focus of this research is often based on developing states (Soifer, 2008). Yet, Vom Hau (2008) argues that even developed states such as the US, already imbued with sufficient stores of the technological, motivational, and institutional factors that allow a state to penetrate society, may be unable to do so if there is a legitimacy deficit. State projects that need buy-in from citizens and the politicians that represent them will face roadblocks unless state authority has been legitimated. I will investigate whether there is enough subnational variation in IP consolidation to argue that the US state cannot exercise its decisions throughout its jurisdiction. That is, polarization has caused delegitimization such that it threatens IP consolidation. To operationalize delegitimization in the US, I will use measures of ideological and affective polarization in the US, and empirical examples of dramatically increased levels of political impasse in Congress.

3.4 AT 1: Exogenously Contingent IP

3.4.1 The role of US FDI in strengthening and maintaining Ireland's infrastructural power.

The plan of the Biden administration to enact a minimum tax on the foreign profits of its corporations, and to tax those corporations on a country-by-country basis would mean that the days of TNC profits washing around the globe only coming to rest where the tax burden was least was coming to an end. The shockwaves of this plan may have been felt hardest by its closest neighbor to the east, Ireland. That these changes would be felt keenest in Ireland is due to Ireland's industrial policy being driven by an FDI-led growth model, which aims to 'pick winners', that is, to attract high-tech high-wage firms from Silicon Valley using a tailored enterprise policy that aims to create business clusters in Dublin's Silicon Docks and its environs that have a critical mass that is self-sustaining (Brazys & Regan, 2017; Porter, 1998). This is a risky strategy, made even more so because of its success. The presence of US TNCs makes up 10% of Ireland's national income, compared to an EU average of 3%. Furthermore, US companies account for one in every five euros in tax paid to the exchequer, again much higher than the international average (Taylor, 2019).

This situation has come about because of Ireland's historically close relationship with the US. The Irish crossed the Atlantic Ocean in droves throughout the nineteenth and twentieth century. This large diaspora led to the US being a key sender of foreign direct investment

into Ireland, with companies such as Ford Motor Cars (Henry Ford's ancestors hailing from Ireland) setting up manufacturing plants in Ireland. The first changes to Ireland's tax laws occurred in the 1950s, which saw a dramatic increase in investment from the US, and by 1990s, nine of the top ten pharmaceutical companies has plants in Ireland (the majority being from the US), and by the time the Celtic Tiger economic boom was in full swing, Ireland was the world's largest exporter of computer software, derived again from mostly American firms who had set up here (Barry, 2003). This led to Dublin having its own 'Silicon Docks' containing the European headquarters of Google, Facebook, LinkedIn, and Twitter, amongst others.

By 2016 the flow of FDI into Ireland had turned into a flood, which led to the peculiar situation where the Irish Central Statistics office had revised a predicted growth rate of 7.8%, and instead reported a 26% rise in GDP (Halpin, 2016). This led economist Paul Krugman to dub the state of Irish tax and revenue reporting as 'leprechaun economics' (Brennan, 2016). The rise in GDP was mainly due to intellectual property being relocated to Ireland the previous year, a process which has continued in scale even as some of the Base Erosion and Profit Shifting (BEPS) tools – a term coined by the OECD that refers to tax planning strategies used by multinational enterprises that exploit gaps and mismatches in tax rules to avoid paying tax (OECD, 2013) – designed by Ireland are coming to an end due to OECD pressure. One such tool called the 'Double-Irish', was in April 2021 reported to have been used by Google to move \$75 billion dollars through Ireland to Bermuda without paying tax in

either state (Taylor, 2021). However, the success of these tools appears to have sped their demise, as these BEPS tool such as the ‘Double-Irish’ have contributed to the politicization of corporate taxation globally, which has spurred the OECD on to force their closure. Yet, as long as Ireland could keep innovating new tools to stay one step ahead of the OECD, it appeared that the Irish state could keep benefitting from firms paying a little, but avoiding most, tax in Ireland.

The death knell was sounded many times to signal that the Irish economy’s reliance on the tax take from a few multinational giants was soon to end. Attacks have come from many different directions. New challengers have risen, such as Bulgaria, Poland, and Hungary, offering effective corporation tax rates that easily undercut what Ireland provides (Hall, 2021). The OECD also developed a framework for 139 countries to collaborate to end tax avoidance strategies that exploit gaps and mismatches in tax law internationally, and this process was signed by 130 out of 139 in July 2021, with Ireland being one of those to not do so (as noted above). These are the same gaps and mismatches that Ireland made a name for itself in nurturing to fruition, and the tax received from exploiting these gaps is a double-edged sword, because this has made a large portion—reportedly up to 50%—of the state’s entire corporate tax take volatile to changes in the international tax policies (Brazys & Regan, 2021), highlighting in stark terms how Ireland’s infrastructural power is exogenously contingent. This contingency is in spite of the Irish government going to great lengths to discursively depoliticize the

growth model in Ireland, making ‘credible commitments’ to its low-tax growth model (Regan & Brazys, 2018), such that now national newspapers declare our corporate tax rate an ‘article of faith’, where even left-wing populists Sinn Fein understand that to have a chance at government, they must acquiesce to not challenging the low-tax underpinnings of the Irish FDI-based growth model (Burke-Kennedy, 2020).

3.4.2 The impact of the Biden tax plan on Ireland’s infrastructural power

I argue that prior to the new Biden tax plan, Ireland had positioned itself as a central and specialized node for US TNCs. Though Ireland was dependent on those firms remaining in the state to ensure a consistent tax take, those firms were themselves reliant on the specific business environment that Ireland provided, and Ireland had succeeded in becoming a crucial hub and conduit in what Wigan and Seabrooke termed Global Wealth Chains, “transacted forms of capital operating multi-jurisdictionally for the purposes of wealth creation and protection” (2017, p. 2). Being central to the chains meant that Ireland could consider that there was a measure of security and longevity for its US FDI-based growth model through interdependence, that they were part of an implicit negotiated relationship between hypo-power and hegemon (Womack, 2001). However, if the foundations for this growth model weaken, then so too would Ireland’s infrastructural power decline.

One strategy for a state to build and consolidate infrastructural power is for it to innovate in order to maintain technological or strategic competitiveness (Weiss, 2005). This has tax implications in Ireland, because the Irish state continually pushed the boundaries of international tax law to create new BEPS tools. As highlighted above with the ‘Double Irish’ and myriad other BEPS tools, Ireland has never shied away from its tax avoidance inventions (Reddan, 2015), and markets itself as steadfast in the face of opposition to its practices. Designing the BEPS tools is one thing, but having them written into law and then tweaked year on year is another, and thus necessitates deep linkages between the state and its legal and accountancy firms (Jones et al., 2018), which is something that Ireland excels at (Barry, 2019). The more innovative Ireland was, the more firms it attracted with its BEPS tools, and this cycle was seemingly self-sustaining, as long as Ireland kept innovating.

Yet, even with BEPS innovation strategies, a state cannot expect to maintain infrastructural power if it cannot mobilize and extract resources such as tax revenues. To do so, Ireland enabled corporate tax avoidance on an industrial and state-banked scale, while at the same time benefitting on a much larger scale than tax havens who merely provided a final resting place for capital, without ever getting to tax it. As noted earlier, Ireland’s tax take from corporations is significant, and certainly did more to pull Ireland out of the post-financial crisis slump than EU backed austerity measures did (Regan & Brazys, 2018). Given that Ireland’s growth model is based in large part on taxing (minimally) the profits of US corporations based in the

state, any proposed changes to the international tax architecture was destined to leave Ireland's infrastructural power severely diminished. Therefore, though Ireland has successfully limited the exit scenarios for firms based there, the Achilles's heel of Ireland's FDI-based growth model is the US signing up to a worldwide minimum tax rate for the foreign earning of its corporations, and this is precisely what was proposed by the Biden administration in early 2021.

Though as with everything, the devil is in the details, and Ireland has become famous for exploiting these details, the OECD plan that the US backed provided no 'carve-outs' (loopholes) for intangibles, which is the bulk of FDI that flows in and out of Ireland via onshoring (Setser, 2019). Therefore, if the global minimum is set above Ireland's headline rate, then much of the incentive to move to Ireland for strictly tax purposes are removed. To lobby against the minimum tax rate being set above Ireland's headline rate, even allowing for the narrowing of exit options available to US firms, it would be necessary for Ireland to pursue foreign policy power strategies to protect its corporation tax base, that is, its infrastructural power.

3.4.3 Ireland's use of FPP to protect its IP

Before the Biden presidency came into being, it was not so clear-cut that Ireland would be disadvantaged by any international tax changes. Though it was true that corporate tax rules were evolving over the past decade, there are always winners and losers from any process, and Ireland stood to gain from proposed rule changes. The OECD

BEPS taskforce was undertaking a policy that meant that intellectual property could only be ‘onshored’ into territories where a TNC had a substantial operation already (such as manufacturing or headquarters). This was predicted to work to the particular advantage of Ireland, but to the disadvantage of micro-state tax havens (Mutti & Grubert, 2007).

Thus, companies who were located in Ireland held some structural power over Ireland, and analysts in the media were right to be wary of the position that Ireland was in. Yet, structural power, as it relates how states and firms interact in the international economy, should be seen as a set of mutual dependencies between the holders of capital (TNCs), and states. Culpepper holds that the ways in which structural power of business makes states dependent on the holders of capital has been theorized in great length, but less analysis has been focused on the ways in which large holders of capital depend on finding a regulatory environment in which they can generate a return from their capital (2015). What Ireland brought to the table before the Biden plan was not only a ‘business-friendly’ regulatory environment, but also the international standing to regularize the tax positions of firms that were present in Ireland already, or wished to locate their intellectual property in a state that would protect them, while also allowing them to avoid tax in their home state. This leads one to the conclusion that Ireland too held a measure of structural power of firms based there.

Tied to the structural power of a state is the concept of the threat of exit by firms out of the state. Specifically, the credibility of threats

of exit (Hacker & Pierson, 2002) are quite important to any analysis of the taxpaying strategies employed by states and firms alike. Furthermore, I argue that the credibility of exit threats by firms is crucial to gauging the consolidation of infrastructural power in a state. If a firm that a state relies on for a large amount of its tax take (like Apple or Google in Ireland) has few barriers to exit, then one could reasonably question how consolidated their infrastructural power is. Though globalization has lowered the barrier to how capital can enter and exit a state, some firms can more credibly threaten exit (and in doing so negotiate enhanced terms for themselves from a government) than others (Farrell & Newman, 2015). This structural advantage to the benefit of firms should disadvantage states such as Ireland, whose reliance on footloose capital results in there being structural constraints on their ability to make choices that would sour their relationship with these firms. A clear example of this is when the EU Commission declared that Apple was receiving illegal state aid from Ireland, and declared that Apple owed 15 billion euro to Ireland in taxes (FT.com, 2014). The Irish state went to court, and won the right for Apple not to pay the state the money, such was its desire to prove to the world that it was a pro-business environment (Brennan, 2020).

This action by the Irish government was indicative of two things. First, that it was willing to pursue a strategy of discursive depoliticization in order to defend its growth model. By this I mean that to highlight its 'credible commitments' to the market, it would be willing to pursue a strategy of 'There is no alternative' (Watson &

Hay, 2003) to the low-tax growth model as it stood. The Irish state was so wedded to enforcing this narrative that it was willing to take the EU Commission to court. Second, the court case was an example of Ireland using its institutional power—by not acquiescing to the EU commission and instead working through institutional apparatuses available to it— in order to reinforce its image as a safe haven for capital.

Farrell and Newman (2015) also discuss how firms will seek to manage the possibility of competing jurisdictional claims over their tax affairs. Very large firms can, and in the case of Ireland usually do, have privileged, ‘club governance’ style access to the arenas where these rules are negotiated, and therefore are advantaged in shaping rules to their liking (Hardiman & Metinsoy, 2019; Reuters, 2016; Tsingou, 2015). But Farrell and Newman stress that in molding regulations and policy, this has ‘consequences for national level exit options’ (2015, p. 534). Therefore, though Apple had a hand to play in designing its ‘stateless’ (Barry, 2019) tax setup in Ireland, firm-level policy tailoring of this kind itself turns into a gilded cage of sorts, that is, that there are limits to Apple’s exit options with regard to the Irish state, which in turn increases Ireland’s structural power.

The term off-shore financial center, or OFC, is now commonly used in the literature, to allow for a more fine-grained analysis of how certain countries apply tax avoidance strategies to attract FDI (Garcia-Bernardo et al., 2017a), rather than just labeling all states who offer low tax rates ‘tax havens’ (though this provides more academic, rather than normative, precision). OFCs were once thought

to be essentially identikit, no different to the variety of Caribbean island-nations who would happily look the other way while billions were funneled through them. However, scholarship on tax avoidance now argues that OFCs specialize, and hold functionally and structurally different positions to each other in the broader network of TNC ownership and tax residency.

Specialization means that TNCs cannot easily exit OFCs and reconstitute in an alternative state, but it also means that states can cut their regulatory cloth to measure, tailoring their tax policy to the firm-level. Garcia-Bernardo found that the Netherlands, the United Kingdom, Switzerland, and Singapore are specialized in holding companies, while Ireland specializes in activities of head offices (2017b). Specialization offers a measure of structural power to those OFCs that provide services over and above the mere secrecy that micro-state tax-havens provide, by locking firms in with a quid-pro-quo, alongside the plausible deniability that EU and OECD membership gives (in the context of Ireland).

It is clear that, prior to the Biden presidency, Ireland's position was relatively secure, though with a lot to lose if changes occurred. It had successfully created somewhat of a 'gilded cage', where firms who had successfully locked-in preferential tax treatment were now less likely to exit after locating substantial tangible and intangible assets in the state. Yet, this is not to say that Ireland's infrastructural power could not be threatened, and the next section will outline precisely how the Biden tax plan affects the consolidation of Ireland's infrastructural power.

A key objective for Ireland's FPP was to ensure that Ireland was not labeled a tax haven, and that Ireland's tax policies would be normalized under OECD BEPS plans. To achieve this, Ireland could not call on structural power, the ability of a state to be a rule maker, in the way the US could for this purpose. Though Ireland does not have the rule-making ability of a state like the US, it does possess institutional and productive power of its own, such that, in the past, it could normalize the BEPS tools in a way that another OFC state might not. An example of Ireland's productive and institutional power at work can be found in the following text from an Irish legal firm advertising Ireland as a tax destination:

"The key tax benefits of Ireland include an *EU approved* low rate of corporation tax 12.5% for trading operations managing, developing and exploiting IP in Ireland. In addition, Ireland has an *OECD approved* "Knowledge Development Box" regime which applies to research and development (R&D) operations carried on in Ireland and the EU" (MCH.ie, 2020).

Here we see firms exploiting Ireland's institutional power as a member of the EU and the OECD to normalize its BEPS tools as EU and OECD approved. In doing so, it suggests that Ireland's policies are appropriate, both *de facto* and *de jura*, in the eyes of these bodies.

Furthermore, Ireland has always rejected strongly any suggestion that it is a tax haven, arguing forcefully and overtly in state position papers that any list that includes it as one is using incorrect historical data, and would point to how Ireland has never been included on any OECD blacklist of countries that facilitate tax

avoidance (Tobin & Walsh, 2013). This is an example of Ireland using productive power to try and avoid explicit labeling as a tax haven. However, given that the term ‘tax haven’ has never been defined, arguments do not need to rise to the level of sophistry to argue against Ireland being a tax haven.

Another means by which Ireland wields its FPP is to use its institutional power to access veto points in EU decision-making. However, though small states have long been seen to have held an undue amount of power in EU policymaking, relative to their size, there are clouds appearing on the horizon. Issues such as the selling of citizenship to the highest bidder by Malta, Hungary’s alignment with powers not allied to EU interest, and using their veto to do, for example, Russia’s bidding, and Irish intransigence over its 12.5% corporation rate means that cumulatively, small states may have overplayed their hands, and arrived at point of no return for the veto in EU policymaking (“The Era of Small-State Privilege in Europe Is Coming to an End,” 2021).

Ireland’s continued use of the veto has further trouble on the horizon. As noted above, in July 2020 the OECD announced that 130 countries had signed up to its ‘Inclusive Framework’ that aimed to ensure that large TNCs paid a fair share of tax (Lynch, 2021). Yet, Ireland was one of the few holdouts from signing the deal, which is important because an Irish (or Estonian or Hungarian) veto would hinder the EU from turning the OECD agreement into a directive (Toplensky, 2021). Being on the outside of this comprehensive agreement looks to be a failure of Ireland’s policy to use ‘quiet

politics' (Bohle & Regan, 2021; Culpepper, 2011) to advocate for its tax rates. Without the cover of low political salience, it seems that Ireland's stance may be little more than a delaying tactic. But if Ireland continues down this path, the veto threat might seem like a stone in the shoe of the EU that it can bear no longer.

In sum, we can see that Ireland's infrastructural power, measured in this case by its corporation tax take, was exogenously contingent, due to the large share of FDI in Ireland originating in the US. Though Ireland did use its foreign policy power to attempt to maintain consolidation—namely in using its structural power to limit the exit options of firms based in Ireland, and using its productive and institutional power to normalize its BEPS tools and to redefine Ireland not as tax haven—these are methods that are most effective in times of quiet politics. And these methods are most effective when you advocate for policies that do not impinge on the material interests of a hegemon (and one which also happens to be the state you receive the majority of your FDI from). For Ireland, neither is the case, and so it appears that its foreign policy power is not sufficient to consolidate its infrastructural power. However, as the following case study will show, the US's own infrastructural power deficiencies may end up saving Ireland's.

3.5 AT 2: Endogenously Contingent IP

3.5.1 Foreign Policy Power in the service of Infrastructural Power?

The previous section argued that Ireland's infrastructural power consolidation has been contingent in large part upon the US maintaining its global, rather than country-by-country approach to tax. This, it was argued, is in the best interests of the US state, because more powerful US TNCs meant a more powerful force projection of US power abroad (Starrs, 2013). Yet, as the tax positions of US corporations became more and more politicized, it also began to be argued that crumbling US roads and bridges could be fixed by these same corporations paying their 'fair share' in tax (International Tax Review, 2017).

The aim of this case study is to investigate whether FPP can consolidate IP that is endogenously contingent. To answer this, it must be demonstrated that even a hegemon, not in possession of strong infrastructural power, may see its preponderance of foreign policy power remain unexploited or even wasted. Thus, it needs to be shown that the US's successful foreign policy goal attainment is stymied by its domestic politics, which I will measure using the lens of subnational variation in infrastructural power. To show how even a powerful state can be in danger of losing IP, this paper will analyze IP from two viewpoints. First, that IP is in danger if a state is not able to collect sufficient taxes to pay for its domestic policy goals (as noted above, taxation is seen as a canary in the coalmine for state capacity).

The second relates to polarization, and argues that if an administration cannot make and implement policy, even with governmental majorities, then that state is facing a fundamental IP consolidation deficit.

3.5.2 The US power paradox

The infrastructural power of a hegemon such as the US contains within itself a contradiction. There are those who rightly point towards the US's power projection abroad as a sign of its immense structural power, and confer upon it a hegemonic status because of that. But there are others who would point to its crumbling bridges and roads, and the considerable wealth inequality present within the state. They would argue that it is unlikely the US could carry out any transformative project on home soil that would be funded by the state via taxation (Fukuyama, 2017; Haass, 2014; Lazonick, 2014; Saez & Zucman, 2020). In light of the political polarization and deadlock, the potential extractive and transformative powers of the US may have dwindled considerably.

Weiss and Thurbon (2018) argue that the dwindling of US infrastructural power is the result of US enforcement of a global intellectual property rights regime has only benefitted US corporations, rather than the US state. This is because the 'offshoring' of American firms' intellectual property to tax havens has severely diminished the ability of the US state to tax the profits that US corporations earn from this intellectual property. Thus, the foreign policy power of the US, hegemonically maintaining the global

intellectual property rights regime, facilitated tax avoidance on a monumental scale (Saez & Zucman, 2020; Zucman et al., 2016). This, Weiss and Thurbon (2018) argue, is a key reason in understanding the decline of US infrastructural power, that is, that if the US state cannot extract taxes from TNCs, it cannot enact transformative projects—at the scale of previous transformations that created a distinct strategic edge for the US, such as its creation of the high-tech industry—at home, and is a clear example of a power paradox at play in US politics.

The results of this fall in corporate tax receipts are outlined in the Biden tax plan, which notes how corporate tax revenues have halved since the enactment of the Tax Cuts and Jobs Act (TCJA) (White House, 2021). As noted above, the TCJA was a major revision to the US tax code, the first in over six decades. Signed into law by President Trump, amongst other changes relating to personal tax, it fundamentally changed in a number of ways how the US taxed the foreign profits of its corporations (Tax Policy Center, 2019).

The enactment of the TCJA, and proposed repeal under the Biden tax plan, intersects with Weiss and Thurbon's power paradox thesis in two ways. First, the TCJA created the bizarre situation, outlined by Setser (2020) where certain countries, and in particular Ireland, benefitted far more in certain ways than the US from its tax laws, due to how the rules within the TCJA were created. The US tax code under Trump made it beneficial to move industry abroad (2020) because the more tangible assets that were located overseas, the higher the amount that could be deducted as a 'routine' return on

those assets. This created a perverse incentive, from a US perspective, to shift more and more assets abroad, because the relatively low returns on capital investment in high-tax countries could blend away the tax owed on high returns from intellectual property located in low-tax states (Rosenthal, 2017).

Under the previous tax regime, corporate profits were only taxed when they were repatriated back to the US. This meant that most profit was deferred indefinitely, or until a tax change allowed a favorable time for return. The TCJA got rid of this system, ostensibly to encourage repatriation, but in fact just created an additional incentive to offshore not just profits, but also production and intellectual property. For example, Pfizer used transfer pricing to move intellectual property developed in the US to its Irish plant, where it manufactured drugs that were sold back to US affiliates.

This was not an unusual case however, with Setser highlighting how in the two years following the enactment of the TCJA, there was a rapid rise in pharmaceutical imports from Ireland, where a number of companies set up production lines for expensive and patent-protected pharmaceuticals (that probably had benefitted from US National institute for Health research funding) in Irish manufacturing centers (2020). What this shows is that the TCJA was entrenching infrastructural power loss in the US, by making it beneficial for US firms to move both tangible and intangible assets out of the state, reducing the tax payments of US firms paid to the US treasury, but also the capital stock of the US.

The second way in which the proposed repeal of the TCJA and enactment of the Biden tax plan intersects with the infrastructural power argument, is that the Biden plan fundamentally reorganizes how US TNCs pay tax in order to fund transformative projects at home. The American Jobs Plan, with a proposed \$2.25 trillion in spending, is on a scale that has not been seen since the New Deal, and the focus on green energy sources could realistically place the US at the forefront of green technology for decades to come, in a similar vein to how investments in defense technologies in the 1960s and 1970s spurred the advances in silicon chips and the US's eventual high-tech dominance (Weiss, 2014). This is a noteworthy policy change, as it clearly signals a change of direction, where the foreign policy objectives of the US are working in service of domestic infrastructural power, rather than prioritizing foreign policy objectives that service the needs of capital.

Yet, as noted above, this reorientation may well be thwarted by strong political polarization in the US. Polarization in the US has been increasing approximately since the 1980s, and rank and file Democrats and Republicans now display far more animus to the 'out-group' than they ever have before (Abramowitz & Saunders, 2008; Iyengar et al., 2019; Webster & Abramowitz, 2017). This is crucial because although the American Jobs Plan is overwhelmingly positive with voters, with three out of five voters supporting the plan (Williams, 2021), there is little electoral benefit to bipartisanship because this polarization means that many voters will not support policies if they are driven by who they see as their political enemy.

3.5.3 How polarization diminishes infrastructural power in the US

Recent research by Hacker and Pierson (2021) noted that the Republican party in the US had, since approximately the 1980s, been the recipient of a ‘plutocratic takeover’. A response to the historical ‘conservative dilemma’ that faced parties of the right, those who served the moneyed elite after universal suffrage faced the quandary of how to attract a voter base when parties of the left promised that government largesse would underpin a rising social floor. The backers of the parties on the right refused to compete by paying higher taxes, so instead pivoted to fueling resentment as a means to gain party support. Though this tactic began in Europe at the end of the twentieth century, it has been successfully applied by the conservative movement in the US. There, social movements such as evangelicals and the National Rifle Association had propelled voters to the polls using various louder and more explicit dog whistles (Foer, 2020), and these divisive campaigns were bankrolled by wealthy conservative donors, who perhaps held their noses at the policies advocated by the campaigns, but were pleased by the tax cuts enacted when conservatives came into office (Hacker & Pierson, 2021). This has led to increased level of political polarization in the US, which I argue is a marker for subnational variation in levels of infrastructural power throughout the country. By this I mean that if polarization is an impediment to the Biden administration enacting policy throughout its jurisdiction, then this is a clear signal that infrastructural power in the US is perilously endogenously contingent.

Research on polarization in the US for a long time held that the median voter was moderate and that compromise was a virtue appreciated by American voters, and any dramatic polarization in US politics was an elite phenomenon not shared by the general public (Carson et al., 2010; Fiorina et al., 2011; Ramirez, 2009). Yet, Harbridge et al (2014) find that, rather than the public preferring bipartisan legislation and compromise, what voters actually prefer is partisan wins, be that in the passage of partisan bills, or blocking of opposition bills. Compromise, rather than being seen as virtuous, is viewed as a loss because any ‘give’ in the ‘give and take’ of policymaking is viewed as a win for the other side.

This is despite many voters agreeing on issues, yet not wanting those issues to be resolved if the resolution is brought about by the ‘other side’. This type of polarization, known as ‘affective polarization’ (Webster & Abramowitz, 2017), can be contrasted with ideological polarization, which of course has also been always present to large degree in the US. Affective polarization is all the more pernicious because it is corrosive to bipartisanship, due to it resulting in distinct negative feelings towards members and leaders of opposing parties (ibid). This is a key point, because in a political system like the US, with multiple veto points built into the system, not only checks and balances, but also the arcane and serpentine rules of congress, most famously including (though not limited to), the filibuster.

As noted above, infrastructural power is a two-way street, and the Biden administration’s tax plans set up a battle directly between

the state and corporate and elite interests. This can be seen in a quote from Kevin Brady, the top Republican on the House of Representatives' ways and means committee, who said that Biden tax plan was a deal that was "a dangerous economic surrender that sends US jobs overseas"(WSJ.com, 2021a), which, as noted above, was a result of the TCJA, and something that the Biden plan aimed to fix.

The decline in a need to be seen as bipartisan, and even this perhaps becoming a dirty word in American politics, has led to the use of the filibuster increasing dramatically, from approximated 60 cloture votes between 1917 and 1970, to the current rising average of roughly 50 every year (Americanprogress.org, 2019). This means that though the US has successfully negotiated, using its foreign policy power, the tax policies that would pay for the American Jobs Plan, it may already be stripped of its transformational qualities. When President Biden met with Senate Republicans regarding the American Jobs Plan, their proposal (US Senate, 2021) was for just under \$1 trillion, some way off the proposed \$2 trillion in the original plan. Many Democrats decried this compromise, and House Democrats began to advocate for not passing a bill that was dictated by the Republican party (WSJ.com, 2021b). Though the American Jobs Plan was passed in late October 2021, the bill had been watered down to approximately \$1 trillion, with a mere \$450 million of that being new spending (WSJ, 2021), meaning that the original bill comprised approximately more than 75% new spending, whereas the bill as passed had a less than 25%. Though the narrative was that of bipartisanship, a more nuanced view could argue that it was

capitulation. The Build Back Better proposals are planned to be passed under the Budget Reconciliation process, although some Senate Democrats have already taken a hard line against the size of the package, and in this case the gutting of the bill may be done by the party's own hands, rather than by Senate Republicans (CNBC.com, 2021)

Therefore, it is quite clear that though the US enjoys a preponderance of foreign policy power, it may actually work against, rather than in service of, the US's domestic infrastructural power. And though President Biden has tried to plot a course that would reprioritize infrastructural power, entrenched polarization has watered down the breadth and depth of the domestic renewal plans. Additionally, it is likely that Congress will block any reasonable attempt to enact a minimum tax on corporations to pay for the plans, a process which appears to be already underway, with Senate republicans refusing to vote for plans that included corporate tax hikes, preferring regressive measures such as VAT hikes (Bloomberg.com, 2021) This is in spite of the fact that in many respects, the TCJA is more stringent than the OECD plans, such that Janet Yellen has argued that the US should be 'grandfathered' into the OECD deal without having to pass domestic legislation (Cole, 2021). The result is that the US has negotiated a deal to pay for policies that will no longer be enacted, which has left OFC states like Ireland scrambling to negotiate loopholes that may render some of the deal already redundant.

3.6 Conclusion

Complex interdependence means that investment, production, and consumption all happen across borders. Due to the asymmetric nature of global FDI flows, with the US at the top of a hierarchical system (Danzman et al., 2017), only the US is steadied by this broad web of interdependence. Individual strands at the periphery of the network can still suffer severe shocks without the US being affected (even if it is the US that caused those shocks). Thus, decisions made by the US can have far reaching consequences, even if those decisions do not result in concrete policies enacted. But what the chain of events set off by the Biden administration decision to unexpectedly row in behind the OECD BEPS proposals means is that we had a singular opportunity to study how the foreign policy power of different states can work to consolidate their infrastructural power.

I argued that foreign policy power can consolidate infrastructural power when, but only when it is exogenously, rather than endogenously contingent. To show this, I conducted two diverse case studies, one of the US and one of Ireland, to see how states with relatively diametrically opposed levels of foreign policy power can use it in service of the consolidation of their infrastructural power. I was also able to account for how the Biden tax plans impinges on the states who are most affected by his new policies—OCF states such as Ireland.

I showed that though a state such as Ireland can call upon deep reserves of infrastructural power to maintain its FDI-based growth model, even going to the lengths of discursively depoliticizing the

growth model, due to its foreign policy power only being potent in times of quiet politics or secured using an EU veto, this instance shows that Ireland's infrastructural power was only ever exogenously contingent, its consolidation relying only on either free-riding upon US policy, or the Biden administration not succeeding in passing its minimum tax plans. If a government is to employ discursive depoliticization as a statecraft tactic, to cordon an issue off from debate by the electorate, it should not be easily contestable by actors outside the state. The Biden tax plan, regardless of its successful passage or not through Congress, shows that discursive depoliticization is not a successful tactic in this instance.

This in turn highlights the infrastructural power deficit in the US. This paper's theoretical contribution was to analyze the Biden administration's role in negotiating for a global minimum tax on corporations —reemphasizing domestic infrastructural power priorities over ensuring the continued structural dominance of its TNCs—and show how this reprioritization, though successfully negotiated using the US's foreign policy power, may be impeded by political polarization at home. This is the other theoretical contribution of this paper, that even the foreign policy power of a hegemon cannot consolidate endogenously contingent infrastructural power. That polarization can drive this contingency is a symptom, and also a cause, of worryingly low infrastructural power in the US, something the Biden administration is trying to fix, but which in all probability will fail to do.

4 Democratic governance and transgovernmental networks

Abstract

Today, transgovernmental networks (TGNs) are fundamental pillars of global governance. This paper provides a theory-guided, systematic empirical analysis of democratic governance in these networks of state executives enjoying a certain degree of independence from national governments. We enquire into whether TGNs are mere technocratic bodies insulated from democratic state-level institutions, or whether their own institutional set-up embraces features of democratic governance. We first develop a novel conceptualization of democratic governance capturing input, throughput and output sources of legitimacy derived from three democratic traditions (liberal, republican, deliberative) and a technocratic one. We use this differentiated measurement to investigate the variation in democratic governance across six pivotal TGNs, characterized by varying authority and member composition. Our findings suggest that TGNs show more democratic governance if composed of democratic member-states and equipped with competencies for authoritative policymaking. The study highlights that an institution's acquisition of (state) competences correlates with its pressure for democratization.

4.1 Introduction

Is the institutional set-up of transgovernmental networks (TGNs) compatible with core principles of democratic governance? TGNs are networks of sub-national public officials liaising below the level of intergovernmental relations. They proliferated in all fields of public policy—and have been heralded as constituting the “real new world

order”: a layer of international cooperation that complements and sometimes substitutes classic multilateralism (Slaughter 1997; Stone 2020). With the proliferation and growing influence of TGNs, the question to what extent governance within TGNs is in line with democratic principles has become increasingly contested.

Granted, questions of democratic governance beyond the nation-state have long been an issue debated within academic circles only; however, of late, an awareness of the shortcomings of global governance arrangements reached the broader public (Schmidtke and Nullmeier 2011). Indeed, democratic legitimacy turned into a key concern of global governance research, with important advances having been primarily made in the analysis of intergovernmental organizations (Dellmuth *et al.* 2019; Dingwerth *et al.* 2020; Tallberg and Zürn 2019; Zürn 2018). This article explores how far pressure for democratic governance can be traced beyond classic multilateral inter-state organizations, notably in the institutional design of less visible but no less influential networks of national regulators, such as the ICN. Against this, our principal research question reads: *Do transgovernmental networks develop democratic institutional features—and under what conditions?*

To answer this question, we explore the institutional features of the three most prominent international TGNs in the fields of competition, environment, and finance plus their European equivalents in a systematic and theory-driven manner. TGNs are primarily acknowledged for their problem-solving qualities, that is their output legitimacy (Slaughter and Hale 2011; Hobolth and

Sindbjerg Martinsen 2013). We are interested in determining the extent to which TGNs also draw on democratic input legitimacy (i.e. democratic inclusiveness) or throughput legitimacy (in terms of the properties of their decision-making processes). Building on the literature on democracy beyond the state, we propose a differentiated conceptualization of democratic governance, considering various institutional sources of input, throughput and output legitimacy. Our novel, theory-based conceptualization derives central indicators of democratic legitimacy from pivotal normative models of legitimate governance, namely the liberal, republican and deliberative models as well as technocratic sources of legitimacy (Coppedge *et al.* 2011; Habermas 1994; Fischer 1990; Shapiro 2005).

Our analysis reveals that, overall, TGNs bear more elements of input and throughput legitimation than is commonly assumed. Yet, some networks show considerably more democratic governance than others. Building on existing research, we argue that network properties, namely a network's membership composition and its decision-making authority, determine its legitimate governance. Our results suggest that in particular TGNs with 'pooled' authority—e.g., those entrusted with binding decisions—show more democratic governance. In contrast, and somewhat unexpectedly, democratic member-state composition does not systematically translate into more institutional features of democratic network governance.

Starting with a brief review of the scholarly debates on democratic governance in international institutions and TGNs more specifically, we introduce our theoretical framework and formulate

hypotheses on the link between network properties (authority and membership composition) and democratic governance in TGNs. We then introduce our research design, before turning to our empirical analysis of six international and European TGNs. The conclusion puts our findings in perspective. Although our sample of six TGNs precludes excessive generalizations, our findings corroborate that an institution's acquisition of (state) competences correlates with its pressure for democratization (Zürn 2000; Stein 2001). The carefully developed composite measure of democratic governance presented in this article allows other scholars to systematically study this relationship in further cases.

4.2 State of the literature: Contested governance in transgovernmental networks

TGNs face two democratic 'objections': First, they are international, and therefore share the critiques usually brought against intergovernmental organizations. Second, they are technocratic and do not gather state representatives. In contrast to classic intergovernmental organizations, TGNs therefore cannot derive legitimacy from the domestic legitimacy of state representatives. A growing literature in International Relations, European Studies, and Comparative Politics offers diverse perspectives on this dual democratic challenge. The focus of this literature is primarily theoretical, often privileging one theoretical conception of democracy over another. And whereas case study research often underpins the

theoretical argument, a comprehensive, systematic and comparative empirical assessments of democratic governance across types of democratic legitimacy in TGNs is lacking.

Skeptics of democratic governance beyond the state contemplate the fundamental trade-off between “the ability of the citizens to exercise democratic control over the decisions of the polity versus the capacity of the system to respond satisfactorily to the collective preferences of its citizens” (Dahl 1994:28). They regard the denationalization of state functions as problematic to democratic governance because, so their argument, it alienates the political process from the domestically constituted *demos* with equal participation chances, violates the principle of accountable decision-making, and evades public control. Internationalization “optimists”, in contrast, view international institutions as a “sensible response to the problems facing democracy in times of societal denationalization” (Zürn 2013:414). They challenge a conception of legitimacy based on the idea that “all public acts ought to be retraceable to the democratic will of the people” (Keller 2008:257), and emphasize that by realigning the political space of rule-making with the functional space of socio-economic activities (Held 1987/2006), international institutions rescue the problem-solving capacity of the nation-state and may help to secure some of the constitutional prerequisites of a democracy (Keohane *et al.* 2009).

Despite disagreement over the implications for national democracy, scholars agree that the diffusion of authority away from traditional representative institutions towards decentered,

functionally specific and non-majoritarian institutions raises the issue of democratic legitimacy (Hooghe and Marks 2003). Intrinsic to these transformations is a change in the nature of governance and the shift from the interventionist to the regulatory state (Majone 1998). This shift goes along with a move from value-based, politicized forms of government within majoritarian, elected representative bodies towards more technocratic, expert-based practices in non-majoritarian, non-elected bodies such as independent regulatory agencies and, at the international level, transgovernmental networks (Slaughter 2004).

The core concern about the legitimacy of international governance applies to intergovernmental (e.g. the World Trade Organization) and transgovernmental arrangements (e.g. the ICN) alike. The type of legitimacy deficit is, however, different. In intergovernmental settings, states cooperate through representatives who have been formally delegated authority by the national governments. Intergovernmental governance derives formal legitimacy from the legitimacy of the respective domestic governments (Keohane *et al.* 2009). Whereas the chain of delegation from citizens to intergovernmental bodies is often evaluated as too long and opaque to ensure effective democratic control (Kingsbury *et al.* 2005:53-33), in the case of transgovernmental governance, this chain is even weaker.

TGNs are defined as networks of non-elected state officials from specialized ministerial departments or independent domestic regulatory agencies, who, acting below the level of central

government, establish institutionalized links to exchange information, develop common regulatory standards, and assist one another in enforcing such standards in their respective jurisdictions (Slaughter 2004; Raustiala 2002). Critics argue that TGNs extend the chain of political delegation from the citizen to the domestic government to non-elected state officials, thereby blurring the lines of control (Papadopoulos 2010). If independent "experts" participate in TGNs, the chain of delegation is even more problematic because they must be unaccountable to the citizens by definition. Representatives of interest groups participating in such networks may have vested interests, as may be the case with NGOs. This decoupling of the TGN from the democratic circuit and from elected representative bodies cannot, from this perspective, be compensated by other forms of control, such as more transparency. Rather, as pointed out by Papadopoulos (2010), such measures bear the risk of 'post-parliamentary' or 'post-liberal' governance—a problem coined as the paradox of having "more accountability, but less democracy".

This pessimistic view is not uncontested. Advocates of transgovernmentalism praise the intrinsic legitimacy of this horizontal mode of coordination, as it draws on domestic regulatory systems and promises greater respect of state sovereignty than, for instance, supranational integration or international treaties (Slaughter 2004; Cohen and Sabel 2005). Scholars of multi-level governance add that TGNs—as archetypes of task-specific, intersecting and flexible "Type II governance" jurisdictions—can rely on functionally specific types of participation rather than the congruence between the political

institutions and the demoï, as more federalist "Type I governance" presupposes (Hooghe and Marks 2003:241). These scholars highlight the advantages of TGNs relating to input legitimacy, such as the networks' greater openness for the inclusion of new actors and ideas, in particular experts and stakeholders (Abbott *et al.* 2018:38; Cohen and Sabel 2006; H  ritier 2003; Schmidt 2013). Others emphasize their superior issue-orientation and rational will-formation, that is, qualities of TGNs associated with throughput legitimacy (Joerges and Neyer 1997; Zaring 2005). Most supporters, however, argue from the point of view of output legitimacy, and highlight TGNs' greater flexibility and professionalism in addressing specific problems (Majone 1998; Eberlein and Newman 2007; Raustiala 2002; Slaughter 2004).

In sum, these debates indicate that the assessment of the democratic qualities of TGNs depend very much on how democratic legitimacy is conceptualized, and that depending on the theoretical approach chosen, different properties of TGNs will be highlighted. In this article we introduce a framework that integrates carefully operationalized yardsticks from the major traditions of democratic thought, and thus allows for a comprehensive, differentiated and systematic conceptualization and measurement of democratic governance in TGNs.

4.3 Conceptualizing democratic governance in TGNs

We define democratic governance in terms of, first, underlying principles rather than institutions embodying them, and second,

procedural rather than substantive characteristics of legitimate rules and practices of public policymaking (Freyburg *et al.* 2015). As to the first point, we follow David Beetham, who argues with regard to democracy that it is “the principles that are central to the question of definition; institutions are secondary and derivative, and may take different forms in different contexts” (1999:4). We apply the idea of context-specific manifestations of legitimacy to transgovernmental rule-making, and contend that different understandings of legitimacy emphasize different principles. Second, instead of judging democratic governance in terms of policy content, we assess how legitimate the manner is in which the policies are made and implemented (Hyden *et al.* 2004:3,12; Diamond and Morlino 2004:22).

Drawing on the three common criteria of legitimacy (input, throughput, output), we privilege no particular understanding of democratic governance but acknowledge that it can take many forms (cf., Nasiritousi, Hjerpe and Bäckstrand 2016). Each criterion of legitimacy is operationalized with a set of indicators that feature particular procedural aspects as suggested by ideal-typical models of legitimate governance, namely the three principal democratic models (i.e. republican, liberal, deliberative; Coppedge *et al.* 2011; Habermas 1994) and the technocratic one (Fischer 1990; Dellmuth *et al.* 2019). We treat the interrelation of input, throughput and output dimensions as complementary.

For instance, in our view, improving output performance through non-majoritarian institutions does not necessarily negatively impact the political input of citizens, or vice-versa (see also Dellmuth

et al. 2019). However, in contrast with technocratic governance, democratic governance draws its legitimacy much more from input and throughput factors than output.

Indicator	Institutional feature
<i>Input</i>	
Participatory: Direct democracy	1. Direct access/participation for individual citizens
Representative: Assembly	2. Granting of membership (of states) 3. Conditions for membership 4. Frequency of assembly meetings 5. Level of authority of member state delegates
Stakeholder- based: Consultative mechanisms	6. Direct access for civil society groups (e.g. NGOs, business associations) 7. Consultative mechanism
Epistemic: Independent experts	8. Involvement of independent experts
<i>Throughput</i>	
Transparency: Access to information	9. Access to information (on demand) => passive 10. Information provision (by network) => active 11. Language of documents 12. Existence of a communication office
Legality: Constitutional basis	13. Governance document (statute or the like)
Accountability: Monitoring / sanctioning	14. (Internal) Accountability of “leading body” (Board, executive committee, etc.) 15. (External, financial) Accountability of network 16. (External, judicial) Accountability of Network 17. (External, civil) Complaint mechanism (e.g. Ombudsman)
Reasoning: Openness to counter-argument	18. Participation in projects/clusters etc. 19. Measures to encourage equal participation
<i>Output</i>	
Effective: Evaluation of goal-attainment	20. Evaluation of goal attainment
Efficient: Evaluation of costs/time/ effectiveness ratio	21. Evaluation of cost efficiency / Audit

Note: For the elaboration of these elements based on democratic and technocratic models of legitimacy, see Online Appendix 1; for the coding scheme, see Online Appendix 2.

Table 5: Institutional features of democratic governance

Table 5 above compiles ten indicators of democratic governance at the level of input, throughput and output legitimacy, as proposed by these varying institutional sources of legitimacy.

4.3.1 Explaining variation in democratic governance of TGNs

When do we expect governance in a transgovernmental network to be more democratic? We argue that democratic governance is more likely if, first, a TGN is composed of developed democracies and, second, if it has the competences for authoritative policy-making. Contemporary International Relations scholarship tends to view the structures and dynamics of international institutions as a function of the regime type of their member-states. Based on the premise that member-states' preferences regarding the design of international governance bodies are rooted in their respective domestic political systems, it is argued that democratic members prefer extending the constitutive principles of (liberal) democracy to global governance (Pevehouse 2005:46; Tallberg *et al.* 2016; Grigorescu 2007; Dingwerth *et al.* 2020). Research shows that the design of an international organization (IO), such as its openness to transnational actors, is indeed “primarily a product of the combined weight of democracies within IOs, and their resulting capacity to secure support for their polity preferences” (Tallberg *et al.* 2016:62; cf., Grigorescu 2007). The likelihood that international bodies, be it IOs or TGNs, reflect democratic governance elements should be higher if these bodies are composed of democracies. This reasoning leads to our first hypothesis on the impact of membership composition.

H1: The higher the share of democratic members is in a transgovernmental network, the more it shows institutional features of democratic governance.

However, democratic and non-democratic members alike should be concerned about a network's democratic governance if it has the competences for authoritative policy-making. Cooper *et al.* suggest that "international institutions have authority when states recognize, in principle or in practice, their ability to make legally binding decisions on matters relating to a state's domestic jurisdiction, even if those decisions are contrary to a state's own policies and preferences" (2008:505).

This reasoning highlights first of all the role of states as key actors transferring sovereignty and being addressees of the so-acquired political authority of international institutions. TGNs usually fulfil this criterion as they bring together "sub-units of different governments", even if these sub-state actors "are not controlled or closely guided by the policies of the cabinets or chief executives of those governments" (Keohane and Nye 1974:43). However, some TGNs may not be dominated by state institutions—and rather resemble transnational networks with various non-state members—which limits their ability for authoritative policy-making. Second, authority implies that decisions may be made against the preferences of one or more of the member institutions—e.g., through

majority voting—which Hooghe and Marks (2015) capture under the concept of ‘pooled’ authority.

Third, and also captured by the notion of ‘pooling’, authority requires that the decisions made are legally binding or lead to binding regulations at the domestic level. In contrast to formal intergovernmental organizations, TGNs rarely have the competence to establish binding rules in the sense of ‘hard’ international law, and thus at first sight bear little sovereignty risks for member-states, which in turn reduces incentives to build often burdensome democratic procedures. However, some TGNs may come closer to the ideal of enacting binding regulations, e.g. by developing soft law standards that aspire to be translated into binding national law. In particular, *regulatory networks* possess such an implicit or even explicit legislative mandate in that “behind the facade of technical adjustments for improved coordination [...] and uniformity of standards lie subtle adjustments” of national laws (Slaughter 2004:59; Zaring 2005). If a TGN has such a rule-shaping function or outright rule-setting authority, members have higher incentives to strengthen mechanisms of democratic governance in order to maintain control over the institution.

Higher democratic governance also allows member parties to handle what Zürn *et al.* (2012) call the “authority-politicization nexus”. Namely, when international institutions directly affect citizens’ lives by exerting political authority, they risk encountering a growing amount of public protest and contestation, especially if they “cannot build on sufficient stocks of legitimacy” (Zürn *et al.*

2012:96; see also Dingwerth *et al.* 2020). By increasing democratic procedures, members can endow authoritative international institutions with higher legitimacy, and thereby reduce public resistance against these institutions. We therefore expect that if a TGN enjoys higher political authority, members will equip it with higher democratic standards and elements of representation, transparency and accountability, *inter alia*, in order to reduce the intricacies of politicization and to maintain a certain level of control.

H2: The stronger the pooling of policy-making authority is in a transgovernmental network, the more it shows institutional features of democratic governance.

There is one caveat to this expectation, however, relating to the extent of delegation of competences within a TGN. Some international institutions delegate important parts of decision-making or agenda-setting competences to non-state bodies (e.g., extensive secretariats) or to a subgroup of member parties (Hooghe and Marks 2015). Such delegation of authority increases, for the delegating members, the incentive to control the international bureaucrats or inner circles through democratic governance mechanisms. Conversely, if such delegation does not occur, and decision-making authority remains in the hands of an encompassing assembly, the merit of additional democratic governance tools are less pertinent, as domestically embedded member regulators appear—to themselves and to the public at large—as remaining in the driver’s seat of decision-making.

Enacting high democratic governance standards depends not only on pooled authority, but also on its interaction with the delegation of competences. These considerations are reflected in our last hypothesis:

H3: The stronger the pooling and delegation of policy-making authority is in a transgovernmental network, the more it shows institutional features of democratic governance.

4.4 Research design

We examine our hypotheses through co-variational analysis on six prominent transgovernmental networks, which are commonly used as examples in pertinent scholarly work, including authoritative handbooks on (transnational) governance (Slaughter 2004; Slaughter and Hale 2011; Hale and Held 2011). These networks are the International Network for Environmental Compliance and Enforcement (INECE); the International Competition Network (ICN); and the Basel Committee for Banking Supervision (BCBS), plus their European equivalents, i.e. the European Network for the Implementation and Enforcement of Environmental Law (IMPEL); the European Competition Network (ECN); and the European Banking Authority (EBA). Next to specializing in three single-issue areas, these networks vary along their membership composition and the extent to which they engage in authoritative and delegated

policymaking, i.e. the characteristics that we hypothesized to determine the extent to which TGNs show democratic governance.

Comparative co-variational analysis generates inference by accounting for the joint variability of independent and dependent variables. Focusing on the mere occurrence of a phenomenon conditional on the properties of potential causal factors (e.g. high/medium/low specifications), it allows to determining whether one or more factors “make[s] a difference” (Blatter and Haverland 2012:33). We assess our hypotheses by systematically comparing the variation in democratic composition of membership and in the extent of pooling and delegation of authority in TGNs with the variation of institutional features of democratic governance across the selected TGNs. In other words, we systematically explore if more democratic membership and/or more pooled/delegated authority co-vary with more institutional features of democratic governance. The difficulty to gain insights in the internal motivations driving institutional change in TGNs precludes any process-tracing that would allow to document the causal mechanism(s) behind the introduction of the observed democratic features. Still, in the absence of a conclusive inventory of TGNs, and on the basis of the careful comparative design, we are confident that the presented study of six prominent networks provides crucial information about democratic governance in the transgovernmental realm in general.

Our empirical analysis is based on (1) the institutional features of democratic governance of each network, (2) their *de jure* authority and (3) the composition of their membership since their respective

creation. We mainly use primary documents and the existing academic literature, which we complement with insights derived from interviews and email exchanges with network representatives and members, where needed.⁶ Most primary sources are recent governance documents of the networks (see inventory) as those from the formation period were unavailable in several cases (IMPEL, INECE, BCBS). We consider this as unproblematic for our study because the variables included show little variation over time. Such institutional rigidity is not surprising given that scholars have long recognized the tendency for institutions to ‘lock-in’ initial conditions, even after considerable shifts in underlying realities (Goldstone 1998; Pierson 2000). This being said, we make reference to time-relevant results where pertinent.⁷

4.4.1 The dependent variable: Democratic governance in TGNs

In assessing democratic governance of the selected transgovernmental networks we use a composite measure that captures democratic sources of legitimacy (i.e. republican, liberal,

⁶ Phone interviews and email exchanges were conducted with: a member of the IMPEL secretariat in 2013/14; members of the INECE secretariat and the US Environmental Protection Agency several times since 2013, with latest contact in June 2020; an official from the ECN unit at the European Commission’s DG Competition in December 2014; members of national competition agencies from South Korea and the USA in 2015 regarding ICN membership. Details on the interviews and email exchanges are available on request.

⁷ Our datasets, including the exact score sheets, will be made available on the authors’ websites.

and deliberative, see Coppedge *et al.* 2011; Habermas 1994) and technocratic ones (Fischer 1990; Shapiro 2005; Dellmuth *et al.* 2019), at the levels of input, throughput and output legitimacy (Scharpf 1999; Schmidt 2013). We identify democratic governance when TGN display elements of input and throughput legitimacy, a focus on output legitimacy in contrast is interpreted as typical of technocratic governance.

As pictured in Table 1, the criteria of input, throughput and output legitimacy are operationalized with a set of indicators featuring institutional aspects suggested by these ideal-typical governance models. The input-dimension stresses the channels feeding social demands into the political system, i.e. citizens via direct democracy; elected representatives via the legislative body; or consultation of stakeholders or independent experts (Grigorescu 2007; Archibugi *et al.* 2012; Dellmuth and Tallberg 2015). The throughput dimension refers to the processes within the political system by which inputs are transformed into outputs, i.e. the transparency of information; the legality of procedures; the accountability of those engaged in making decisions; and reasoning in terms of an in-built process of inclusive and reasoned opinion-formation. Finally, the output dimension emphasizes the results of the decision-making process, their quality and consequences, commonly evaluated in terms of the extent to which they address citizens' concerns in an effective and efficient manner (Scharpf 1999; Dellmuth and Tallberg 2015; McLaren 2002; Schmidt 2013; Steffek 2015).

Each indicator is measured by at least one distinctive item on a three-point scale [0;1], as specified in Table 1 and Online Appendix 2. Those indicators that are widely seen as pivotal for democratic governance, namely public representation, transparency, and accountability (Freyburg *et al.* 2015: Chapter 3), are implicitly weighted by measuring them with four items each, while the remaining indicators are measured with one or two items only. We follow Coppedge *et al.* (2011:255) in that we view the various conceptions of democratic governance as complementary. We make no normative judgement about how the individual indicators or items, respectively, might be combined (e.g. that they match a specific normative model), but accept any empirical manifestation. In line with this reasoning, we assess TGNs with high governance scores on several items, as more democratic than TGNs that score high only on one.

In short, we calculate the total democratic governance value by summing up the scores on all 21 items and dividing by 21 which creates a range between 0 and 1. We then categorize scores between 0 and 0.4 as ‘low’, those between 0.41 and 0.59 as ‘medium’, and those between 0.6 and 1 as ‘high’. The same logic applies when calculating the score for the individual legitimacy dimensions, for which we sum up the scores of the respective defining items. In addition to the quantified scores, we provide descriptive evidence of the democratic institutional features shown in the respective TGNs in the qualitative discussion.

4.4.2 Operationalization of the independent variables

To operationalize our explanatory variable ‘*membership composition*’, we establish the majority regime-type of a network’s members at the year of the network’s formation and of any substantial revision in its governance rules or structure with relevance for this study. Previous studies demonstrate that it is the “combined weight of democracies” (Tallberg *et al.* 2016) which determines the design of international institutions (Grigorescu 2007), rather than alternative mechanisms, such as a specific influence of “new democracies anxious to lock in domestic reforms [...or the disproportionate] influence of democratic great powers” (Tallberg *et al.* 2016:61). We ignore potential non-state members such as IOs in the calculation of democratic membership.

Specifically, we use the Democracy-Dictatorship data by Cheibub *et al.* (2010) in the updated version by Bjøenskov and Rode (2020). This dichotomous indicator is based on a minimalist definition of democracy as “a set of political institutions in which properly contested, repeated and repeatable elections are free and fair—as assessed by international observers from democratic countries—and create ex ante uncertainty for the incumbent government and de facto ex post irreversibility of election results” (Bjøenskov and Rode 2020:532-3). We treat a network’s composition as ‘democratic’ based on the median score of all its member-states.

In operationalizing our second explanatory variable, the *authority* of TGNs, we largely follow Hooghe and Mark’s (2015) work on international organizations, and complement it with items

identified in studies of EU regulatory agencies (Wonka and Rittberger 2010) and national regulatory agencies (Maggetti 2007; Hanretty and Koop 2012; Gilardi 2008; Maggetti and Verhoest 2014). Drawing on Hooghe and Marks (2015), our variable authority is composed of two dimensions: ‘pooling of authority’—here, the extent to which a TGN has the competence to make authoritative decisions, that is to impose binding procedures and regulations on its addressees—and ‘delegation of authority’ as the extent to which a TGN is autonomous from its member-states in making decisions.

We measure ‘*pooling of authority*’ with three indicators: i) the main type of members that constitute the network, namely state institutions (1) or non-state actors (0); ii) the dominant decision-making rule in the network’s assembly-like organ (majority voting (1), consensus (0.5), unanimity or no rule (0)); and iii) the (aspired) bindingness of decisions for the network’s members (participating states are expected to comply with decisions taken by the TGN (1), the network drafts regulatory standards (recommendations) in the hope of triggering legal changes in members (0.5), the network merely monitors/promotes the implementation of existing regulations (0)). The final score is a simple combination of the three indicators, where (i) and (ii) are first multiplied, then added to (iii) before the product is divided by two. The first two indicators are multiplied because we assume that only if decisions are made by state institutions (i), they can bear binding results at the domestic level (ii).

‘*Delegation*’, then, refers to the extent to which networks are overseen by member-states. It is operationalized with two indicators,

as detailed in Online Appendix 3: i) delegation of competences to a body not comprised of member-states (1) (or comprised of a subgroup of member-states (0.5), otherwise (0)); and ii) the decision-making competences of such delegated bodies, including discretion over the budget, the organization's institutional set-up, and (internal) policy-making rules. In principle, the autonomy of networks is also determined by potentially constraining actors, e.g. the European Commission for EU networks. However, we focus on autonomy from member-states since, empirically, we find autonomy constraints to be higher from member-states than from other organizations on (almost) all dimensions. To get to the final score, we first average the three sub-items of (ii) and multiply the sum with (i). The two indicators are multiplied, as discretion only arises in interaction with the presence of delegated bodies with the TGN.

For both pooling and delegation of authority, we label values between 0 and 0.2 as 'low', values between 0.21 and 0.6 as 'medium', and 'values between 0.61 and 1 as 'high'. The lower thresholds for authority (compared to democratic governance) are chosen, because we assume that some (even if limited) authority is already conducive to spurring higher democratic governance provisions.

4.5 Empirical Analysis: Democratic governance in transgovernmental networks

In order to measure democratic governance in TGNs and to assess its interplay with the networks' membership composition and policy-making authority we selected six prominent TGNs in three policy

sectors that vary on these two dimensions. In the following we briefly introduce the six networks before addressing their patterns of democratic governance and how these relate to membership and authority.

In the field of finance, we selected the Basel Committee on Banking Supervision and its European counterpart, the European Banking Authority. The *Basel Committee on Banking Supervision* (BCBS) was founded in 1974 to provide a forum for regulatory cooperation between member countries aimed at improving global financial stability. Its mandate includes setting minimum standards for the regulation and supervision of banks; sharing supervisory issues, approaches and techniques to improve cross-border cooperation; and exchanging information to help identify current or emerging risks for the global financial system. Membership originated with the G10 (including Switzerland) plus Luxemburg and was considerably expanded to twenty-seven members in 2009. The Bank for International Settlements (BIS) hosts the BCBS, and the BCBS looks to the Group of Central Bank Governors and Heads of Supervision (GHOS), which comprises central bank governors and (non-central bank) heads of supervision from member countries for endorsement of its charter and all major decisions, meeting three to four times a year. Previous studies on the BCBS have recognized its important role as regulator, supervisor (Pan 2010:269) and “enforcer of moral principles” in the banking sector (Lee 1998:32). There have also been debates in the literature on the degree of autonomy and authority of the network (Coleman and Underhill 1995; Gadinis

2012), but to date no study appears to provide a thorough analysis of BCBS' patterns of democratic governance.

We contrast this “global financial architecture [...] created by informal networks” (Slaughter and Hale 2011:346), with its European equivalent, the *European Banking Authority* (EBA). EBA was established in 2011 as an independent authority, and its objectives are to preserve financial stability in the EU and to maintain the integrity, efficiency and orderly functioning of the banking sector. The EBA grew out of the Committee of European Banking Supervisors (CEBS), a similar organization established in 2004. Both organizations had similar membership profiles, including members of the European Union as full voting members and non-EU members of the European Free Trade Association (Iceland, Norway, Liechtenstein) attending as observers (Croatia joined as a full member in 2013). The Board of Supervisors meets at least four times a year. Previous research, while acknowledging the EBA's harmonization efforts and supervisory action in Europe, denounced its limited enforcement and sanctioning powers as well as its limited authority regarding collection of information (Masciandaro *et al.* 2011:210; Fahey 2011:593). As for the BCBS, studies of the network's democratic quality are lacking.

Our second pair of TGN is located in the area of environment. The *International Network for Environmental Compliance and Enforcement* (INECE) brings together environmental regulators, investigators, prosecutors, judges, and employees of international environmental and development organizations. The INECE,

originally set up in 1989, develops and implements multi-level strategies for environmental compliance and enforcement. The main bodies of INECE are the Executive Committee (the most important body in the network), the Global Council, and the Secretariat. Lacking a formal membership structure, projects are organized on an ad-hoc basis, mostly in the form of global and regional conferences where interested parties can participate. In previous literature, INECE has been hailed for its potential to bring all relevant stakeholders to the discussion (NGOs, INECE project leaders and participating countries), which may point to a good performance in terms of input legitimacy (Savasan 2015).

Its European equivalent, the *European Union Network for the Implementation and Enforcement of Environmental Law* (IMPEL) meets bi-annually. IMPEL is an association of the environmental authorities of the EU member states, acceding and candidate countries of the EU, as well as EEA and EFTA countries. Founded in 1992, it currently has fifty members, drawn from the environmental authorities of thirty-five states. Its main objective is to lobby for and support the effective application of environmental legislation in the EU. The main bodies of IMPEL are the General Assembly, which is the highest authority of the association, and the Board, which is the executive body. Previous studies have provided insights on the patterns of participation and learning within the network but have focused on its efficiency rather than its modes of governance (Engelov and Cashman 2015).

Lastly, we selected two networks from the competition sector, the International and the European competition networks. The *International Competition Network* (ICN) has followed a similar trajectory to INECE in the antitrust sphere. It was launched in October 2001 by 14 countries and has by now reached a membership of over 130 competition authorities, supported by a dense web of competition experts from the private and the non-profit sectors. Its mandate is to encourage dissemination of antitrust experience and best practices, promote the advocacy role of antitrust agencies, and seek to facilitate international cooperation. The Steering Group, comprised of (at least) 15 member agencies, guides the ICN work, while all members meet regularly at the Annual Conference in addition to workshops and virtual exchange through video conferences and the like. The literature on the ICN focuses on the sources and functioning of a soft law 'enterprise' for global competition governance (Sokol 2007, Verdier 2009) and how the ICN relates to other organizations active in the field such as the OECD and UNCTAD (Hollman and Kovacic 2011).

The *European Competition Network* (ECN), finally, was founded in 2004, to allow member states to share competence with the European Commission over cross-border antitrust enforcement. In addition, it provides a forum for exchange of information and discussion of general issues. The ECN architecture comprises the biannual Director's General Meeting, where the heads of member agencies discuss strategic questions such as issue prioritization and future development; the ECN Plenary, composed of ECN

coordinators, which meets several times a year; along with several working groups. Authors have started to analyze the power relationships between the Commission and the member state competition authorities within the ECN, coming to a rather positive conclusion about cooperation within the network (Kassim and Wright 2010). Other studies regret the lack of transparency of the ECN (Cengiz 2009:20; Wilks 2007:4), which would imply negative consequences for democratic legitimacy.

The selected networks have different organizational structures. To ensure consistent coding across all six TGNs, we distinguish two situations: The first situation refers to TGNs within which a body exists comprised of representatives from all member jurisdictions. If this body exerts control in any of the first two dimensions, this implies full discretion of member states on the respective dimension (=low). This situation applies to four out of our six TGNs, namely ICN (Annual Conference), ECN (Directors' Meeting), IMPEL (General Assembly), and BCBS (Group of Governors and Heads of Supervision GHOS, also 'the Committee'). EBA is a special case. Here, the Board of Supervisors (BoS) is "the ultimate decision-making body of the EBA". It is composed of the heads of member states' banking authorities and would thus fall under the category of a body composed of all members as described above. But the EBA charter contains a specific article on independence, which prescribes that BoS members shall not take instructions from member governments. The BoS is therefore *de jure* not considered a member-

state organ. Its predecessor network CEBS, in contrast, had no such independence article.

The second situation refers to TGN, within which a body exists composed of a subset of the network's member jurisdictions (and potentially other actors). If this body exerts control in any of the two dimensions, this implies partial discretion of member states (= medium), because only a subset of members exerts control. This relates to four of the six TGNs, namely the ICN (Steering Group with approx. 15-18 members); EBA (Management Board of the EBA Chairperson and 6 members elected from the BoS), INECE (Executive Committee, i.e. "group of up to 8 leaders, primarily from national governments, who serve as the governing body of INECE"), and IMPEL Board ("the Chair; the Vice-Chair; the National IMPEL Coordinators or the National IMPEL Representatives of the last, present and next country holding the presidency of the European Union; the Chairs or Co-chairs of the Clusters"). Having introduced these basic features of the six selected networks, we now assess their patterns of democratic governance.

4.5.1 Patterns of democratic governance

The transgovernmental networks under study vary considerably in their degree of democratic governance. Importantly, this variation plays across the input, throughput and output dimensions of democratic governance—thus highlighting more differentiated sources of legitimacy than is commonly assumed. For each of the TGNs, Figure 1 provides the score per dimension of our dependent

variable and groups the appearing patterns by policy field (columns) and by their classification as international (upper row) or European network. Overall, the EBA is the most democratic network, followed by IMPEL and the ICN, while the BCBS, the INECE and the ECN show lower levels of democratic governance. There are no sector-specific patterns, and—contrary to our expectations—networks composed of democratic members only, in particular the European networks, do not generally score higher in democratic governance (see Table 6).

Specifically, on the *input dimension* (i.e. participatory, representative, stakeholder-based, and epistemic governance) the financial network EBA scores high, its international counterpart the BCBS scores low, and all other networks share medium average scores. While none of the networks provides full participation in terms of co-decision rights for ordinary citizens, the INECE and EBA provide for the public to participate (INECE) or “present oral observations before the decision is taken” (EBA 2011). The criterion of representation is the only one in which the European networks tend to be more democratic, in particular the EBA and ECN, yet only slightly. This is linked to the higher frequency of meetings as compared to the global networks, and (for the ECN and EBA) to the fact that new members’ accession to and involvement in the networks comes ‘automatically’ with EU membership. Regarding stakeholder involvement, the EBA grants extensive access to organized civil society via “open public consultations on draft implementing technical standards” (EBA 2010), while the ECN—at the other

extreme—grants no such rights at all (ECN 2003a,b). Finally, all networks—apart from the BCBS—are widely open to input from independent experts, who may participate for the most part when invited by one of the members (e.g. ECN 2003a:4).

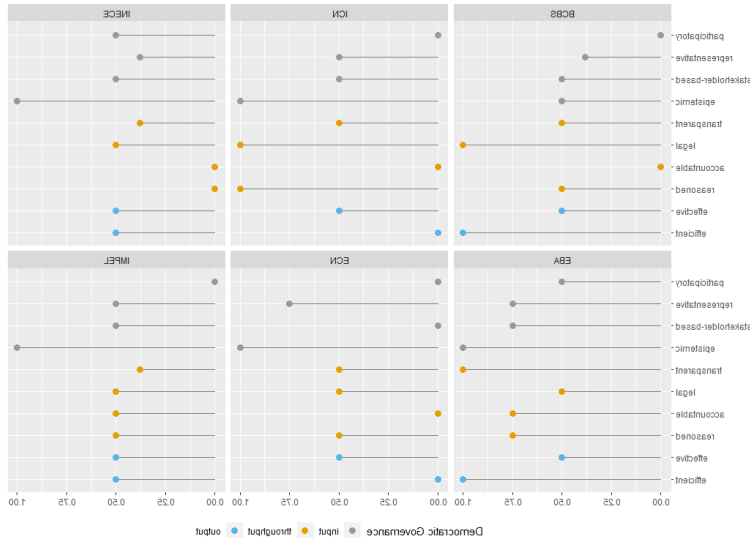


Figure 5: Democratic governance of TGNs
 Note: International TGNs are displayed in the upper row, with their European counterpart beneath.

On the *throughput dimension* (i.e., transparent, legal, accountable, and reasonable governance), the EBA leads again the field, followed by IMPEL and the ICN. The remaining networks show lower democratic governance. In terms of transparency, most networks show moderate values except the EBA, which provides access to information in multiple languages, a separate communication unit, and an explicit instruction for staff to share

information when requested by citizens (EBA 2011). Regarding legality, the international networks are more democratic in the sense that changes to the networks' principal governance documents (e.g. statute, operational framework) require the consent of all members, with the exception of the INECE where the Executive Committee, "a group of up to 8 leaders, primarily from national governments", can introduce changes to the Operating Protocols by majority vote (INECE 2014:3). Majority approval is also sufficient for the European networks. For the EBA and ECN this is linked to the EU's ordinary legislative procedure, given that in the two cases the principal governance document takes the form of an EU regulation (ECN 2003a; EBA 2010). In terms of accountability, the EBA and IMPEL are more democratic than others; this is especially so for the EBA, which has an autonomous budget, legal personality and a formal complaint mechanism. In addition, the EBA provides for a strict monitoring mechanism of its leading staff as "the Board of Supervisors shall exercise disciplinary authority over the Chairperson and the Executive Director and may remove them from office" (EBA 2010). In terms of reasoning, all networks—with the exception of the INECE—show at least moderate levels of openness to equal contribution by all members. The ICN is most advanced in this regard, followed by the EBA. The ICN invites all members to participate in working groups, explicitly encourages diversity in the establishment of working groups, and offers (limited) funding for eligible members to facilitate the attendance of ICN events (ICN 2012). The INECE, on the other hand, does not allow free

participation in working groups; rather “the EC [Executive Committee] members will establish subcommittees and appoint subcommittee members” (INECE 2014:5).

On the *output dimension* (i.e., efficient and effective governance), the financial networks show the highest average scores, as reflected in external financial evaluation mechanisms. Indeed, for the BCBS, there is an external audit of the Bank for International Settlements financial statement, whose report includes the BCBS finances (in 2019 provided by Ernst & Young Ltd); and, the EBA’s budget is audited by the European Court of Auditors. The environmental networks the INECE and IMPEL score moderately on both dimensions as they provide for internal evaluation of efficiency and effectiveness (IMPEL 2012a; INECE 2012a, 2014). Both competition networks, in turn, comprise mechanisms for the evaluation of effectiveness, for instance when considering the status of ongoing projects in the ICN Steering Group (ICN 2012:2), but do not have dedicated efficiency evaluation systems, and therefore score lowest among the networks. In brief, our analysis generally finds no support for Papadopoulos’ hypothesis (2010) that network governance generally privileges a technocratic understanding of legitimacy centered on output performance. Indeed, there appears no one-dimensional output-oriented pattern.

	Membership	Authority pooling	delegation	Democratic Governance
EBA	Democratic	High	Medium	High
BCBS	Mixed (78%)	High	Low	Low
ECN	Democratic	Medium	Low	Low
ICN	Mixed (77%)	Medium	Medium	Medium
IMPEL	Democratic	Medium	Medium	Medium
INECE	Mixed (86%)	Low	Medium	Low

Table 6 Network properties and democratic governance

Note: De jure situation, based on most recent governance documents (see inventory). Percentage refers to share of democratic states in total member-states; coding details are available online.

4.5.2 Membership composition, authority, and democratic governance

How do these patterns of democratic governance relate to the networks' membership composition and authority? Regarding *membership composition*, networks composed only of democratic member-states do not systematically show more democratic governance than networks which also include non-democratic members (see Table 6). The EBA and IMPEL show the highest levels of democratic governance; both are composed of democracies only. However, the ECN, also composed of democracies only, disturbs this pattern, as it is the network with the lowest level of democratic governance, next to the INECE. Overall, the European networks, composed of democracies, do not consistently show more democratic governance than international networks with mixed membership.

This might be due to the fact that the democracy levels of all networks are generally quite high, and democracies have been the major initiators of those TGNs with considerable non-democratic membership. For instance, as regards the ICN, responding to a request made by the International Competition Policy Advisory Committee (ICPAC), the United States of America proposed the establishment of this international network, an initiative that was supported by European Commission competition officials.

With regard to the competences and independence of TGNs, we expected networks with *pooled authority* to show more democratic governance, as long as there is also some delegation of competences within the network. Figure 6 summarizes the pattern of covariation between a TGN's authority (in its two dimensions, pooling and delegation) and democratic governance. Overall, the results support Hypothesis 2 on a positive relationship between authority and democratic governance. The EBA stands out as the network with highest pooling—based on participation of state institutions, majority voting and a comparatively high degree of bindingness—and at the same is strongest in terms of democratic governance, as discussed above.

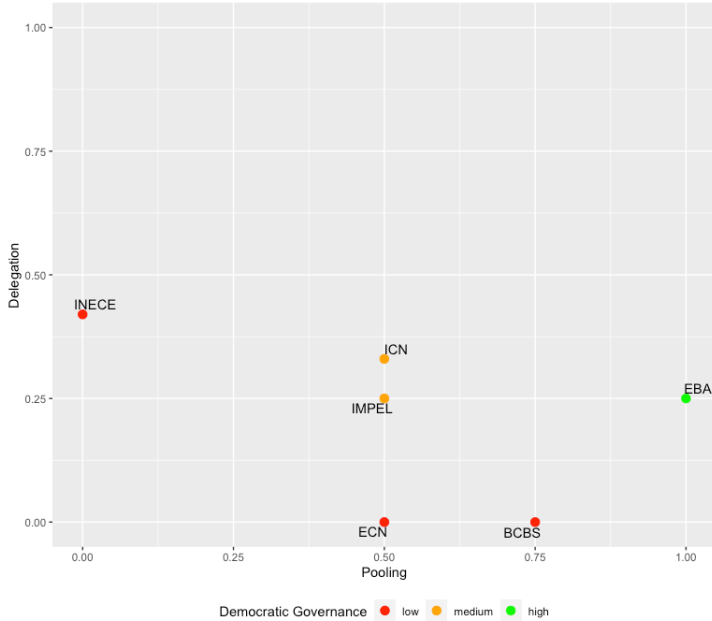


Figure 6: Authority and democratic governance

At the other end of the spectrum is the environmental network INECE, which has a low degree of pooled authority—in particular because states play a less central role in the membership composition—and also shows a low degree of democratic governance. Meanwhile, IMPEL and the ICN occupy the middle range of democratic governance, and also do so with regard to pooling. The ICN is composed of state competition authorities and its regulatory recommendations—i.e. binding domestic to-be regulations—are agreed by consensus (ICN 2012), which exceeds unanimity voting but rests behind the EBA’s majority voting

procedures. For IMPEL, majority voting implies an important amount of pooling, but the network is not deciding or aiming at creating binding rules for member-state jurisdictions (IMPEL 2012a,b). These medium scores on pooled authority go along with medium levels on almost all dimensions of democratic governance.

While the results discussed so far support our expectation for authority, those for the ECN and BCBS appear to contradict the supposed relationship between pooling and democratic governance. Both networks score similarly on the pooling dimension as the ICN and IMPEL (medium), but have democratic governance scores as low as the INECE. This apparent inconsistency can be explained by the amount of delegation within the networks. Both the BCBS and ECN score low (0) on delegation of competences, which reduces the need for member parties to devise democratic governance mechanisms, despite some amount of pooled authority. More specifically, the BCBS shows considerable pooling of authority, especially in terms of bindingness as the committee “expects full implementation of its standards by the BCBS members”; yet, there is no delegation of decision-making competences to a non-state body, which reduces incentives to create strong democratic governance. The ECN, working by consensus and composed of EU member-state competition agencies (and the European Commission), among others, develops recommendations—e.g., on leniency agreements—which member-states are invited to transpose into national law. This medium amount of pooled authority is, however, not combined with delegation to a non-state body; all network-specific decision-making

competences remain within the Director's Meeting composed of high-level member-state and EU Commission competition officials. Under these circumstances, legitimacy-building through institutions of democratic governance seems less necessary.

Our results support Hypothesis 3: Neither pooled authority nor high delegation alone seem sufficient for inducing strong democratic governance. In the case of the INECE, with no pooled authority, democratic governance remains low—despite medium-level delegation. The extreme positioning of the INECE—and of the EBA in the other direction—may signify that both networks depart from being typical TGNs. From this perspective, the INECE is not a pure TGN, but comes close to a transnational multi-member network. This is because INECE gathers next to environmental regulators from the member states also investigators, prosecutors, judges, and employees of international environmental and development organizations, thus providing the most diverse membership in our sample. The EBA, on the other hand, goes beyond mere transgovernmental horizontal networking and has been turned into a more vertical formalized EU regulatory agency, with a particularly strong degree of pooling of authority.

This evolution of the EBA from a looser transgovernmental network, the former Committee of European Banking Supervisors (CEBS, 2004-2010) towards a more authoritative regulatory agency allows to retrace the parallelism of an institution's gain in competences and the strengthening of institutions of democratic governance. The main regulatory responsibility of the EBA is to

produce and review binding technical standards. Compared to its predecessor, the CEBS, a consensus-based forum for “reflection, debate, and advice” (EBA 2003), the EBA’s purpose of prudential regulation and supervision meant it is constituted with significant authority: The EBA requires that competent authorities make “every effort” to comply with its rules (EBA 2010:Art. 16(3)), and most decisions are taken by simple majority (Božina Beroš 2018:56). Though the texts have sometimes been ‘improved upon’ by the Commission (cf., Ferran 2016), the Commission must explain and justify its reasoning, and amendments may only occur in very exceptional and restrictive circumstances (Busuioc, 2013).

The creation of an European banking agency with real authority was facilitated by the course of agencification in Europe—i.e. the “transfer of government activities to bodies vertically specialized outside of government departments” (Trondal, 2014, p. 545). The EU institutions’ push to improve regulatory agencies’ governance procedures culminated in the legally non-binding ‘Common approach on decentralized agencies’ (European Union 2012a), a set of guiding principles to make agencies more coherent, effective and accountable. Previously, the Lisbon Treaty brought into force the right for citizens to receive good administration (European Union 2012b:Art. 41), along with providing for increased transparency, public participation in policy-making, and dialogue with civil society. Its ratification also enshrined the 2001 European Code of Good Administration into law, providing the legal underpinning for much of what can be considered best practice in democratic TGN governance. This development has

also gone along with intensified external oversight for the EBA, e.g., by the European Ombudsman (Vogiatzis 2018).

In sum, the governance character of the EBA was, from its inception, imbued with the potential for a type of substantive authority absent from the other TGNs in our study. The EBA has been influenced by the regulatory attitudes arising from the financial crisis, which led to its creation as an agency. This, allied to the EU's endeavor to infuse itself with input legitimacy through the Lisbon Treaty, and the firm enforcement of the European Ombudsman, ensured that the EBA lived up to the spirit and letter of the EU governance codes for agencies. It is this blend that makes the EBA a unique TGN in our study, showing particularly strong institutional features of democratic governance.

4.6 Conclusion

This article set out to examine whether and in what form the trend towards the democratization of international institutions extends beyond the realm of highly visible and widely known intergovernmental organizations and also affects the relatively uncharted, yet no less influential realm of TGNs. Our analytical framework arose from the debate into whether beyond-the-state democratic governance might not only differ in the assessment of how much this constitutes a democratic deficit in the eyes of an observer, but also in the way democracy itself is assessed. Papadopoulos (2010) expresses this question most explicitly when he posits that legitimacy in network governance may relate to aspects of 'output' and

‘accountability’ rather than what he refers to as ‘democracy’ proper, i.e., universal representation. In order to grasp the existence of different understandings of democratic governance (and to avoid privileging one conception over others), we developed a differentiated measurement assessing input, throughput and output sources of legitimacy derived from three democratic traditions (liberal, republican, deliberative) and a technocratic one.

Examining six TGNs active in three policy areas (banking, competition, environment) and reflecting European/international memberships, our analysis shows that democratic governance of TGNs draws on more factors than technocratic output orientation or accountability alone. While it is true that procedures relating to ensuring effectiveness and efficiency are central to TGN governance, patterns of governance are more varied and feature various democratic throughput (particularly transparency and accountability) and input factors. The latter include practices of stakeholder involvement (characteristic of republican and deliberative democracy) such as BCBS’ policy-related consultations among relevant stakeholders, as well as EBA’s mandatory public consultations on draft technical standards. Having established this ‘composite’ (Héritier 2003) type of democratic governance in TGNs, the explanation of both the extent and the type of democratic governance is less straightforward than our theoretical expectations suggest. We find the strongest support for the hypothesis that democratic governance correlates with the pooled authority of TGNs, i.e. if a network has high authoritative rule-making and regulation

competences, it shows a high level of democratic governance. This general relationship, however, appears to hold true only if there is some delegation of competences to non-state bodies within the TGN, as otherwise decision-making authority remains in the hands of state institutions.

Our analysis further suggests that the democratic composition of the network alone does not necessarily reflect stronger institutional features of democratic governance. While the EBA and IMPEL—the European banking and environmental networks—score higher on democratic governance than their international counterparts (BCBS, INECE), in the competition sector this picture is reversed (with the ICN scoring higher than its European equivalent, the ECN). This finding may stem from the 'pragmatic' position that democracies assure democracy at home and TGNs are only delegated functional bodies enhancing the problem-solving capacity of the states (Moravcsik 2002). From this point of view, democracy is “saturated” and “there is no normative need for distinct mechanisms of legitimation for international organizations” (Offe and Preuss 2006:176). The broader context of “good governance” reforms in the EU and its administration highlights the importance of an overarching political and institutional framework in the case of EU-networks that is only indirectly related to the democratic status of the member-states. This justifies examining democratic governance at the level of the international institutions themselves.

In conclusion, the current transitions in the international system demand continued attention to the forms and triggers of democratic

governance beyond the state. Next to the increasingly politicized sphere of intergovernmental organizations, transgovernmental networks have emerged as an important layer of international cooperation, sometimes exercising considerable levels of authority. The comprehensive and differentiated metric of democratic governance features developed in this article may inspire further studies of democratic governance in different types of international institutions, including for instance transnational networks of private actors or hybrid public-private governance bodies. So far, our findings seem to corroborate research on intergovernmental organizations that establishes a link between the organization's degree of authority and its democratic features (Dingwerth 2020; Zürn 2018). This would point at new frontiers in the politicization of international institutions that are hitherto not well understood. In this regard, our comparative analysis of six transgovernmental networks with varying degrees of authority and differing membership compositions provides first indicative insights. While more generalizable results would necessitate a larger sample, a deeper analysis of the mechanism translating growing authority into politicization and democratic governance would benefit from detailed case-studies. In this context, the democratic anchoring of transgovernmental actors in domestic institutions would merit closer attention, as well as a move beyond the analysis of *de jure* provisions towards the actual activation and practice of democratic governance institutions in transgovernmental networks.

5 Thesis Conclusion

This thesis provides fresh insights into the study of depoliticization, particularly in judging whether the policy can be deemed a successful one since the financial crisis. The results are mixed, but contained within are real contributions that I hope can move the debate on depoliticization forward in a number of ways. Using a mixture of quantitative and qualitative methods, the thesis not only speaks to the literature on depoliticization, but also to scholars of finance and central banking, lobbying and business power, corporation tax governance, classic international relations theories of state power, along with international political economy conceptions of state infrastructural power, and the literature on democratic governance and transgovernmental networks.

By moving the discussion on depoliticization to disparate and distinct political arenas, this thesis was able to shed light on debates that may have seemed settled (such as central bank lobbying), whose outlook may have seemed overly pessimistic (e.g. transgovernmental networks), or arenas that did not look likely to relate to depoliticization (FDI-based growth models). To do so necessitated that my analytical horizons be expansive, but also that the thesis always pulled focus back to debates on the success of depoliticization.

Study one explored how banks sitting on the Federal Advisory Council might use their privileged position on the FAC to lobby the Federal Reserve. Studying the FAC was valuable for two reasons: First that the FAC, though its membership comprises the largest

banks in the US, had been considerably under-explored in the literature on the Federal Reserve. By exploring the FAC, I was able to make some important contributions to the debate on depoliticized, independent central banks. The first contribution is that the Federal Reserve listens to large banks more than smaller banks. This is unsurprising, but disappointing, because the requirements of Wall Street and Main Street rarely go hand in hand. What is remarkable is that the results show that merely being classed as ‘globally systemically important’ is not enough for your preferences to be heard by the Federal Reserve. Second, what is also notable is that the influence of the four largest banks in the US only seems to be growing larger, demonstrating that the era of ‘too big to fail’ is now the new normal. A third, more generalizable contribution to the depoliticization debate is that it is fruitful to reinterrogate fora where the depoliticization debate has been thought to have been settled. If depoliticization is to have any legitimacy as a means to solve difficult problems, then scholars must be vigilant in ensuring that the underlying conditions upon which we based assumptions regarding depoliticization’s effectiveness have not changed.

Study two demonstrated how foreign policy power can consolidate infrastructural power when, but only when, it is exogenously, rather than endogenously contingent. To show this, I conducted a diverse case study, using two cases of contingent infrastructural power (the US and Ireland), to see how states that varied to a large degree in their levels of foreign policy power are able to use it in service of the consolidation of their infrastructural power.

I was also able to reveal how the Biden tax plans impacts on the states who are most negatively influenced by his new tax policies—OFC states like as Ireland. I showed that though a state such as Ireland can call upon deep reserves of infrastructural power to maintain its FDI-based growth model (to the extent that the policy becomes depoliticized), its foreign policy power to defend its tax policies is only effective in times of quiet politics (or secured using an EU veto). This example shows that Ireland's infrastructural power was only ever exogenously contingent—its consolidation was dependent only on either free-riding upon US policy, or the Biden administration not accomplishing its minimum tax plans. This highlights that depoliticizing issues that are exogenously contingent is a potentially very costly policy choice, because it not only invites democratic legitimacy questions that accompany all depoliticization tactics, but it also can be easily undermined if the state's foreign policy power is not sufficient to protect the depoliticization from outside contestation.

The third study aimed to investigate whether the trend towards the democratization of international institutions remains capped at intergovernmental organizations, or if it extends to the no less influential realm of TGNs. Studying six TGNs active in three policy areas (banking, competition, environment) and comprising European/international memberships, we find the clearest support for the hypothesis that democratic governance correlates with the pooled authority of TGNs, that is, if a network has a high level of authority—the competences to make binding rules and regulations, it shows a high level of democratic governance. This broad relationship,

however, appears to hold true only if there is some delegation of competences to non-state bodies within the TGN, as otherwise decision-making authority remains in the hands of state institutions.

As these results relate to my thesis of the success of depoliticization tactics with distributional consequences, our analysis shows that democratic governance of TGNs draws on more factors than technocratic output orientation or accountability alone. This is an interesting result, and when related to the financial TGNs in the study, seems to contradict somewhat the argument that the global macroprudential regime, of which the EBA is an important part, is a technocratic project devised by technocrats for technocrats (Engelen *et al.*, 2011 cited in Baker & Widmaier, 2014).

Scholars have long questioned whether there are divided loyalties among the members of management boards of TGNs (Busuioc, 2012; Gilardi, 2009; Pollitt *et al.*, 2004), and since its inception, the EBA has been interrogated as to whether it was possible for the politicization of policy making within the agency to be avoided, given that national interests potentially pervade to its core (Busuioc, 2013). Yet, our study shows that in fact, the EBA displays a high measure of authority, while also scoring consistently highly across the board on our democratic governance dependent variable, and particularly highly on the ‘input’-oriented processes.

Though it would have been considered unlikely at the EBA’s inception, given its distance along the chain of democratic legitimacy (Kingsbury *et al.*, 2005), the governance character of the EBA was, from its inception, imbued with the potential for a type of substantive

authority absent from the other TGNs in our study. This includes the other financial TGN in our study, the BCBS, which does not rate as highly in terms of its authority. This is not to say that just because the BCBS lacks authority (in terms of the bindingness of its decisions), that it also lacks power. Rather, the preference in finance is for markets to provide discipline, rather than the political establishment (Balthazar, 2014).

Baker (2018) argues that financial TGNs are particularly vulnerable to what Seabrooke termed ‘legitimacy gaps’ (2007, p. 258), the gaps between claims and acts made by institutions or organizations with specific policy functions. TGNs, it is argued, are especially susceptible, because cloistered technocrats become convinced of the accuracy of their own prescriptions, grow overconfident, and become insulated to popular sentiments (Baker, 2018). In contrast, the results of our TGN paper suggest that the EBA is building particularly robust institutional features of democratic governance, such as mandatory public consultations on draft technical standards, which are characteristic of republican and deliberative democracy. Though by no means a cure-all for technocrats suffering legitimacy gaps, the democratic governance trends in the EBA may go some way to ensuring the effectiveness of its policy prescriptions.

The EBA’s creation must be seen in the context of the cyclicity of regulation intensity and scrutiny. During boom periods, financial regulation is less politicized, and a body such as its predecessor, the CEBS, can avoid the glare of political scrutiny.

During financial crashes, the distributional effects of lax regulation become clearer to taxpayers forced to bail out banks, who then call for tighter control of financial institutions (Baker, 2010). This allows for institutions set up in the aftermath of crises, such as the EBA, to have real authority. However, crises are not a necessary condition for the creation of delegated networks with democratic legitimacy. Central banks, and TGNs like the EBA that are related to them, seem like they would legitimate themselves to the market, rather than the public. This certainly seems to be the case with the Fed, which I demonstrated listens more to the interests of Wall Street than Main Street. Thus, it appears that governmental depoliticization may work best for financial interests. This link to depoliticization working in the interests of capital also seems to hold in the case of discursive depoliticization in Ireland, where a ‘there is no alternative’ narrative led the Irish state to refuse \$13 billion dollars in tax payments from Apple, going to court with the European Commission in order to prove to the markets that its tax policies were ‘credible commitments’. The bitter irony here is that the US’ tax plans, which potentially so undermine Ireland’s growth model, may well be thwarted by political polarization in the US driven by corporate interest. Yet, both of these instances of depoliticization have strong domestic politics links. The EBA, on the other hand, when examined as to whether it bent to the will of financial interests when conducting stress tests, one of its main functions, there was found to be little evidence that the EBA was captured by large banks (Mosk, 2021; Schneider et al., 2020). Though it would be significantly overstating

my case to say that the particularly strong institutional features of democratic governance found at the EBA is directly causal of the absence of capture, I would argue that it helps, while also improving the democratic deficit of this type of depoliticization.

5.1 Concluding remarks

In sum, because depoliticization does not remove the politics from an issue, it is vital that, as noted by Flinders and Wood (2015), policymakers periodically justify and reaffirm the reasoning behind depoliticization decisions, in order for us to know whether the policies are succeeding. We may find that, like the Fed, that policy is now working for the betterment of banks that are ‘too big to fail’. Or in the case of Ireland, it might be found that you cannot depoliticize what you cannot control outside your borders. Or in the case of TGNs like the EBA, that the answer might pleasantly surprise you.

5.2 Avenues of future research

This thesis opens up a number of exciting avenues for future research, the first of which relates to the finding that the EBA contains robust feature of democratic governance is a surprising finding. As noted above, there is a, quite reasonable, view within the literature on financial regulation that the macroprudential regime which has been designed for the benefit of technocratic efficiency rather than legitimacy. The BCBS showed some features of democratic

governance, but it is a much older institution, and therefore much more likely to suffer from path dependencies that might limit its democratic evolution. The empirical work done in the TGN paper resulted in a systematic conceptualization of democratic governance, which was derived from twenty-one methodically operationalized and theoretically rooted indicators. These indicators would pave the way for any future scholarship of the democratic quality of TGNs, and studying the full range of financial TGNs (e.g. the Financial Stability Board or the European Systemic Risk Board) that form an important part of the global macroprudential regime would provide great insight into the links between depoliticization, finance, pooled authority, market discipline, and democratic governance.

The second avenue for future research relates to hegemonic stability theory (HST). David Lake understood the hegemon as one who establishes and maintains the “international economic infrastructure” (1993, p. 462) as a public good, with such provisions necessitating an asymmetry of power because of the burden of resourcing a regime and enforcing its rules. Yet, the success of a regime, measured by its longevity, stability, and legitimacy (Saull, 2010), contains within it what may eventually undermine the regime: Free-riding. Over the long-term, smaller states benefit more economically from the public goods provided by the hegemon, which, it is argued, may sow the seeds for the regime’s demise and eventual hegemonic decline (Gilpin, 2012). It is argued that the US’ maintenance of a global intellectual property rights regime resembles a hegemonic good (Weiss & Thurbon, 2018a). The argument that

Ireland's infrastructural power is exogenously contingent upon US tax policy contains within it both hegemony and the concept of free-riding, and therefore begs the question: Are OFC states like Ireland, Singapore, and Switzerland free-riding upon US hegemony, and how can reinvigorating the theory of HST, in the name of bringing the state back in (the state being considered a tired concept when HST was put into cold storage in the early 1990s), provide us with fresh insight into the power politics of international tax regimes?

Finally, the paper on the FAC highlights how non-prominent banks simply do not have the political weight to counter prominent banks. The FAC should be the ideal forum to invoke instrumental power in the form of close-contact lobbying, but smaller firms simply do not seem to have the structural importance necessary to bolster their instrumental power. Though my interviewees at the FAC said that bankers "did not talk their own book" at meetings there, perhaps it was only the smallest banks that really took this motto to heart. I believe that my study of the FAC could facilitate a future study of how small banks who sit on the FAC achieve, if at all, their monetary policy aims. Because this thesis shows that it is only the preferences of the very largest banks that win out, how this lack of interest rate preference attainment affects smaller banks is an important avenue of future study because the health of smaller banks, and not Wall Street, is more closely tied to the health of the real economy. The empirical work I have already completed in terms of my FAC dataset, combined with possible future interviews with those in charge of smaller banks, would provide real insight into how monetary policy is formed and

transmitted to Main Street, rather than Wall Street, which is an investigation I think would be as timely as it would be valuable.

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Appendix A

Table 7: Traditional Factor: Models 1-3

Traditional Factor	(1) Prominent 2003-2007	(2) Large 2003-2007	(3) Small 2003-2007
DV: Federal Funds Rate (%)			
Factor for traditional bank	-2.89e-05 (0.000691)	-0.000662 (0.000721)	-7.34e-05 (0.00137)
prom = 1, Prominent Bank	-0.00370 (0.00320)		
member = 1, Sitting on FAC	-0.00256 (0.00416)	0.000168 (0.00457)	-0.00279 (0.00577)
Factor for traditional bank = 0,	-	-	-
1.member#c.traditional	-0.000865 (0.00254)	0.00126 (0.00331)	0.000725 (0.00392)
1. Prominent #c.traditional	-0.00645* (0.00356)		
1.member#1. Prominent	0.00765 (0.00557)		
1.member#1. Prominent #c.traditional	0.0254*** (0.00487)		
medium = 1		0.00279 (0.00187)	
1.medium#c.traditional		0.00166 (0.00188)	
1.member#1. Large		-0.00665 (0.00806)	
1.member#1. Large #c.traditional		-0.00353 (0.00555)	
small = 1			-0.00152 (0.00175)
1.small#c.traditional			-0.000135 (0.00155)
1.member#1.small			0.00196 (0.00772)
1.member#1.small#c.traditional			-0.00174 (0.00463)
Unemployment	- 0.0923*** (0.000687)	- 0.0928*** (0.000716)	- 0.0930*** (0.000602)
Taylor Rule	0.0596*** (0.000282)	0.0597*** (0.000278)	0.0596*** (0.000272)
Constant	0.00285 (0.00520)	0.00376 (0.00597)	0.00665 (0.00466)
Observations	2,328	2,328	2,328
Number of banks	43	43	43

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 8: Retail Factor – Models 4-6

Retail Factor	(4)	(5)	(6)
DV: Federal Funds Rate (%)	Prominent 2013-2019	Large 2013-2019	Small 2013-2019
Factor for retail bank	-7.18e-05 (0.000621)	0.000240 (0.000693)	-0.000915 (0.000764)
prom = 1, Prominent Bank	-0.00248 (0.00702)		
member = 1, Sitting on FAC	0.000401 (0.00221)	-0.000749 (0.00261)	0.00165 (0.00353)
1.member#c.retail	0.00350*** (0.00136)	0.00274 (0.00216)	0.00621*** (0.00173)
1.prom#c.retail	-0.00424 (0.00521)		
1.member#1.prom	0.00941 (0.0139)		
1.member#1.prom#c.retail	0.0223** (0.0101)		
medium = 1		-0.000590 (0.00118)	
1.medium#c.retail		-0.000964 (0.00110)	
1.member#1. Large		0.00280 (0.00458)	
1.member#1. Large #c.retail		0.00259 (0.00270)	
small = 1			0.000296 (0.00113)
1.small#c.retail			0.00150 (0.00107)
1.member#1.small			-0.00219 (0.00436)
1.member#1.small#c.retail			-0.00454* (0.00261)
Unemployment	-0.0284*** (0.000182)	-0.0284*** (0.000215)	-0.0283*** (0.000212)
Taylor Rule	0.00601*** (8.58e-05)	0.00602*** (8.28e-05)	0.00601*** (8.57e-05)
Constant	0.223*** (0.00132)	0.223*** (0.00179)	0.222*** (0.00168)
Observations	3,757	3,757	3,757
Number of banks	50	50	50

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 9: Investment Factor: Models 7-9

Investment Factor	(7)	(8)	(9)
DV: Federal Funds Rate (%)	Prominent 2013-2019	Large 2013-2019	Small 2013-2019
Factor for investment bank	-0.000232 (0.000512)	-0.000898 (0.000565)	-0.000551 (0.000793)
prom = 1, Prominent Bank	-0.00163 (0.00377)		
member = 1, Sitting on FAC	0.000461 (0.00223)	-0.00160 (0.00260)	0.000567 (0.00400)
1.member#c.investment	-0.00196 (0.00191)	0.00348 (0.00339)	-0.000893 (0.00291)
1. Prominent #c.investment	0.00427*** (0.00161)		
1.member#1. Prominent	0.00358 (0.00911)		
1.member#1. Prominent #c.investment	0.0248*** (0.00536)		
medium = 1		-0.000607 (0.00122)	
1.medium#c.investment		0.000855 (0.000988)	
1.member#1. Large		0.00334 (0.00494)	
1.member#1. Large #c.investment		-0.00662 (0.00423)	
small = 1			0.000364 (0.00120)
1.small#c.investment			0.000153 (0.000944)
1.member#1.small			-0.00143 (0.00468)
1.member#1.small#c.investment			0.00138 (0.00412)
Unemployment	-0.0286*** (0.000192)	-0.0286*** (0.000203)	-0.0285*** (0.000130)
Taylor Rule	0.00598*** (6.84e-05)	0.00603*** (6.46e-05)	0.00601*** (4.46e-05)
Constant	0.224*** (0.00124)	0.224*** (0.00160)	0.223*** (0.00116)
Observations	3,757	3,757	3,757
Number of banks	50	50	50

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 10: Pairwise Factor Correlations

	Traditional	Retail	Investment
Traditional	1.0000		
Retail	0.5831	1.0000	
Investment	-0.6484	0.2354	1.0000

Note: N= 8948

Table 11: Panel Indicators: Summary Statistics

Variable		Mean	Std. Dev.	Min	Max	Observations
Loan-To-Deposit Ratio	overall	-80.4373	26.55842	-325.8871	20.97094	N = 8948
	between		23.14821	-133.2118	-11.19075	n = 52
	within		15.45843	-306.2493	-12.80054	T = 172.077
Non-Interest Income Ratio	overall	-30.4343	16.31203	-90.9091	261.7631	N = 8948
	between		14.62209	-74.54431	-6.56161	n = 52
	within		8.027624	-85.03369	264.4288	T = 172.077
Texas Ratio	overall	-11.545	9.596552	-86.13497	1.763451	N = 8948
	between		5.708903	-21.72019	-1.06761	n = 52
	within		7.882464	-79.50243	6.476325	T = 172.077
Tier-1 Leverage Ratio	overall	8.873452	1.806307	4.454028	26.1748	N = 8948
	between		1.517401	6.548829	14.48514	n = 52
	within		1.20002	3.85667	24.78894	T = 172.077
Net-Interest Margin	overall	3.384351	1.142434	0.0296238	9.118203	N = 8948
	between		1.119523	1.208793	8.428715	n = 52
	within		0.472394	0.7263404	6.380963	T = 172.077

Table 12: Factor Analysis

Traditional	overall	0.198951	1.206892	-3.558722	5.029635	N = 8948
	between		1.11903	-3.010836	3.793879	n = 52
	within		0.548133	-1.818311	6.610132	T = 172.077
Retail	overall	-0.22876	1.009082	-4.507525	5.674268	N = 8948
	between		0.91785	-2.434738	2.356776	n = 52
	within		0.56764	-4.714729	4.938205	T = 172.077
Investment	overall	-0.43804	1.351978	-10.2344	4.690149	N = 8948
	between		0.98557	-2.373059	1.914369	n = 52
	within		1.005306	-9.403326	3.387895	T = 172.077

Table 13: Interest Rate Preference Indicators

Indicator	Description	Reasoning	Direction
Loan to Deposit Ratio	Measures the coverage of loans matched to stable funding (deposits).	If loans exceed deposits, banks are forced to borrow to close the funding gap. Higher LTD means preference for lower interest rates.	Negative expected effect on Federal Funds Rate
Tier-1 Leverage Ratio	Describes the relationship between a bank's core capital and its assets.	The higher the Tier 1 leverage ratio is, the higher the likelihood is of the bank withstanding negative shocks to its balance sheet.	Positive expected effect on Federal Funds Rate
Texas Ratio	Measures a bank's probability of failure by comparing its bad assets to available capital.	The higher a bank's Texas Ratio, the more likely it is they prefer low interest rates (so as not to induce defaults)	Negative expected effect on Federal Funds Rate
Net Interest Margin	The percentage of profit a bank derives from interest paid on deposits.	Shows how much a bank earns on interest from its credit products (such as loans and mortgages) compared to the interest it pays out (for e.g. savings accounts).	Positive expected effect on Federal Funds Rate
Non-Interest Income	Income derived from non-interest earning activities (as a percentage of total income).	The larger a bank, the more likely it is to profit more from non-interest-based activities.	Negative expected effect on Federal Funds Rate.

Appendix B

Appendix B1: Ideal-typical models of legitimate governance

According to the *liberal model*, the democratic quality of governance within a TGN is judged “by the limits” (throughput dimension) placed on elected representatives as the rule-makers, particularly the establishment of effective checks and balances, as well as equal opportunities and individual liberties guaranteed by legally defined (constitutionalized) and transparent procedures (Coppedge *et al.* 2011:253; Held 2006: Ch. 3).

Uncomfortable with (fully) delegating political authority to representatives, the *republican model* prefers tight chains of delegation from the national demos to international bodies, with direct forms of participation through direct democratic instruments or stakeholder consultations (Barber 1988; Fung and Wright 2003). While thus emphasizing the input dimension of legitimacy, the republican tradition also emphasizes accountable and transparent processes as prerequisite for democratic governance.

The *deliberative model* evaluates the democratic quality of governance based in equal parts on who participates in processes of decision-making and how these decisions are reached, i.e. the input and the throughput dimensions of legitimacy (Held 2006:237). Embracing the idea of issue-specific, functional demoi, it emphasizes the importance of public reasoning and expertise, and rational decision-making focused on the common good over representation. In

addition to the involvement of experts and stakeholders, political institutions with a deliberative function are key, such as consultative bodies like hearings (Dryzek 2010). While deliberativists disagree on the principle of transparency (Warren and Mansbridge 2013), the key throughput principle of deliberative theory is "reasoning", i.e. the process by which actors evaluate all options and opinions before reaching a balanced and justified decision.

Finally, the *technocratic model* is based on instrumental reasoning and the confidence that rational, scientific analysis enables consensus (Radaelli 1999:37). Here, governance is mainly evaluated with regard to its output legitimacy in terms of its problem-solving capacity, i.e. the extent to which it produces workable and efficient solutions. The active involvement of independent experts in the production, control and validation of the knowledge-basis upon which decisions are made is considered desirable rather than problematic (Fischer 1990).

Appendix B2: Brief introduction of selected networks

The ***Basel Committee on Banking Supervision*** (BCBS), one of the most prominent TGN, was founded in 1974 to provide a forum for regulatory cooperation between member countries to improve global financial stability. Its mandate includes setting minimum standards for the regulation and supervision of banks; sharing supervisory issues, approaches and techniques to improve cross-border cooperation; and exchanging information to help identify current or emerging risks for the global financial system. Membership originated with the G10 (including Switzerland) plus Luxemburg and was considerably expanded to twenty-seven members in 2009. The Bank for International Settlements (BIS) hosts the BCBS, and the BCBS looks to the Group of Central Bank Governors and Heads of Supervision (GHOS), which comprises central bank governors and (non-central bank) heads of supervision from member countries for endorsement of its charter and all major decisions, meeting three to four times a year. Previous studies on the BCBS have recognized its important role as regulator, supervisor (Pan 2010:269) and “enforcer of moral principles” in the banking sector (Lee 1998:32). There have also been debates in the literature on the degree of autonomy and authority of the network (Coleman and Underhill 1995; Gadinis 2012), but to date no study appears to provide a thorough analysis of BCBS' patterns of democratic governance.

We contrast this “global financial architecture [...] created by informal networks” (Slaughter and Hale 2011:346), with its

European equivalent, the ***European Banking Authority*** (EBA). EBA was established in 2011 as an independent authority, and its objectives are to preserve financial stability in the EU and to maintain the integrity, efficiency and orderly functioning of the banking sector. The EBA grew out of the Committee of European Banking Supervisors (CEBS), a similar organisation established in 2004. Both organisations had similar membership profiles, including members of the European Union as full voting members and non-EU members of the European Free Trade Association (Iceland, Norway, Liechtenstein) attending as observers (Croatia joined as a full member in 2013). The Board of Supervisors meets at least four times a year. Previous research, while acknowledging the EBA's harmonization efforts and supervisory action in Europe, denounced its limited enforcement and sanctioning powers as well as its limited authority regarding collection of information (Masciandaro *et al.* 2011:210; Fahey 2011:593). Studies on the network's democratic quality are however lacking from the current literature.

Our second pair of TGN is located in the area of environment. The ***International Network for Environmental Compliance and Enforcement*** (INECE) brings together environmental regulators, investigators, prosecutors, judges, and employees of international environmental and development organizations. The INECE, originally set up in 1989, develops and implements multi-level strategies for environmental compliance and enforcement. The main bodies of INECE are the Executive Committee (the most important body in the network), the Global Council, and the Secretariat. Lacking a formal membership structure, projects are organized on an ad-hoc basis,

mostly in the form of global and regional conferences where interested parties can participate. In previous literature, INECE has been hailed for its potential to bring all relevant stakeholders to the discussion (NGOs, INECE project leaders and participating countries), which may point to a good performance in terms of input legitimacy (Savasan 2015).

Its European equivalent, the *European Union Network for the Implementation and Enforcement of Environmental Law* (IMPEL) meets bi-annually. IMPEL is an association of the environmental authorities of the EU member states, acceding and candidate countries of the EU, as well as EEA and EFTA countries. Founded in 1992, it currently has fifty members, drawn from the environmental authorities of thirty-five states. Its main objective is to lobby for and support the effective application of environmental legislation in the EU. The main bodies of IMPEL are the General Assembly, which is the highest authority of the association, and the Board, which is the executive body. Existing studies provide insights on the patterns of participation and learning within the network and debate the pros and cons of IMPEL's institutional structure (Twena 2012; Engelov and Cashman 2015).

Thirdly, we selected two networks from the competition sector, the International and the European competition networks. The *International Competition Network* (ICN) has followed a similar trajectory to INECE in the antitrust sphere. It was launched in October 2001 by 14 countries and has by now reached a membership of over 130 competition authorities, supported by a dense web of competition experts from the private and the non-profit sectors. Its mandate is to

encourage dissemination of antitrust experience and best practices, promote the advocacy role of antitrust agencies, and seek to facilitate international cooperation. The Steering Group, comprised of (at least) 15 member agencies, guides the ICN work, while all members meet regularly at the Annual Conference in addition to workshops and virtual exchange through video conferences and the like. Previous literature discussed such a soft law 'enterprise' for global competition governance (Sokol 2007, Verdier 2009) and how the ICN relates to other organisations active in the field such as the OECD and UNCTAD (Hollman and Kovacic 2011). Democratic governance has thus far been largely eclipsed from the literature.

The *European Competition Network* (ECN), finally, was founded in 2004, to allow member states to share competence with the European Commission over cross-border antitrust enforcement. In addition, it provides a forum for exchange of information and discussion of general issues. The ECN architecture comprises the biannual Director's General Meeting, where the heads of member agencies discuss strategic questions such as issue prioritization and future development; the ECN Plenary, composed of ECN coordinators, which meets several times a year; along with several working groups. Authors have started to analyse the power relationships between the Commission and the member state competition authorities within the ECN, coming to a rather positive conclusion about cooperation within the network (Kassim and Wright 2010). Other studies regret the lack of transparency of the ECN (Cengiz 2009:20; Wilks 2007:4), which would imply negative consequences for democratic legitimacy.

The selected networks have different **organizational structures**. To ensure consistent coding across all six TGNs, we distinguish two situations:

The first situation refers to TGNs within which a body exists comprised of representatives from all member jurisdictions. If this body exerts control in any of the first two dimensions, this implies full discretion of member states on the respective dimension (=low). This situation applies to four out of our six TGNs, namely ICN (Annual Conference), ECN (Directors' Meeting), IMPEL (General Assembly), and BCBS (Group of Governors and Heads of Supervision GHOS, also 'the Committee'). EBA is a special case. Here, the Board of Supervisors (BoS) is 'the ultimate decision-making body of the EBA'. It is composed of the heads of member states' banking authorities and would thus fall under the category of a body composed of all members as described above. But the EBA charter contains a specific article on independence, which prescribes that BoS members shall not take instructions from member governments. The BoS is therefore *de jure* not considered a member-state organ. Its predecessor network CEBS, in contrast, had no such independence article.

The second situation refers to TGN, within which a body exists composed of a subset of the network's member jurisdictions (and potentially other actors). If this body exerts control in any of the two dimensions, this implies partial discretion of member states (=medium), because only a subset of members exerts control. This relates to four of the six TGNs, namely the ICN (Steering Group with approx. 15-18 members); EBA (Management Board of the EBA

Chairperson and 6 members elected from the BoS), INECE (Executive Committee, i.e. “group of up to 8 leaders, primarily from national governments, who serve as the governing body of INECE”), and IMPEL Board (“the Chair; the Vice-Chair; the National IMPEL Coordinators or the National IMPEL Representatives of the last, present and next country holding the presidency of the European Union; the Chairs or Co-chairs of the Clusters”).

Appendix B3: Operationalization of de jure democratic governance

Indicator	Item	Coding	Coding example (assigned value in parenthesis)
<i>Input</i>			
Participatory: Direct democracy	1. Direct access/participation for individual citizens	0 = no access/participation of individual citizens 0.5 = possibility to initiate measures/issues (e.g. citizens' initiatives) 1 = possibility to vote on policy/measures/issues by referendum	<u>EBA, Decision EBA DC 006, Art 16</u> "Every member of the public shall have the right... to present oral observations before the decision is taken." (= 0.5)
Representative: Parliament, Assembly	2. Granting of membership (of states)	0 = accession only by unanimity consent/ consensus of members 0.5 = accession by consent of a part of the members (e.g., majority vote, approval by sub-committee)	<u>ICN Operational Framework 2012</u> "All applications for membership must be approved by the Steering Group." (i.e. a subset of members) (= 0.5)

	1 = accession does not require voting by members	
3. Conditions for membership	0 = discriminatory requirements 0.5 = formal requirements 1 = no formal requirements	<u>BCBS Charter 4</u> "In accepting new members, due regard will be given to the importance of their national banking sectors to international financial stability." (= 0)
4. Assembly	0 = assembly meets less than once a year 0.5 = assembly meets once a year 1 = assembly meets at least once a year	<u>IMPEL, Rules 2012</u> "The General Assembly shall meet by right at least once a year, ideally twice a year." (= 1)
5. Member state delegate	0 = low level official or undefined 0.5 = high level official (e.g., head of a directorate/department) 1 = member of government (minister)	<u>BCBS Charter 8.3.</u> "BCBS representatives should be senior officials of their organisations and should have the authority to commit their institutions." (= 0.5)

Stakeholder-based:
Consultative mechanisms

6. Direct access for civil society groups (e.g. NGOs, business associations)	0 = no participation of organized civil society 0.5 = civil society org. may participate as observers (without voting rights) 1 = civil society org. may become full members (with voting right)	<u>EBA, REGULATION (EU) No 1093/2010. Art 37.</u> “The Banking Stakeholder Group shall be composed of 30 members, representing in balanced proportions credit and investment institutions operating in the Union, their employees’ representatives as well as consumers, users of banking services and representatives of SMEs. (...)”(= 0.5)
7. Consultative mechanism	0 = no formal provisions 0.5 = voluntary/optional consultation 1 = mandatory consultation prior to decisions	<u>BCBS Charter 17</u> "(...) BCBS seeks input from all relevant stakeholders on policy proposals. The consultation process will include issuing a public invitation to interested parties to provide comments (...)”(= 1)

Epistemic: Involvement experts	of	8. Involvement/bringing in of independent experts?	0 = no involvement 0.5 = involvement needs consent of all members 1 = involvement by invitation of individual members or a subset of members	<u>ICN Operational Framework 2012</u> "NGAs [Non-Governmental Advisors] will be invited to participate in the ICN (...) based on their individual authority and expertise in the field of antitrust." (= 0.5)
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Throughput

Transparency: Access information	to	9. Access to information (on demand) => passive	0 = no access to any documents 0.5 = limited access to documents (e.g. decisions on individual requests) 1 = general and complete access	<u>Decision EBA DC 006. Article 22.</u> "Requests for information. "The agent or other servant shall, when he has responsibility for the matter concerned, provide members of the public with the information that they request." (= 1)
		10. Information provision (by network) => active	0 = no information/documents published 0.5 = (annual) reports published	<u>BCBS Charter 8.5.</u> "Committee decisions of public interest shall be communicated through the BCBS website. The Committee shall issue, when

	1 = also internal documents (e.g., minutes/voting records) freely available	appropriate, press statements to communicate its decisions." (= 0.5)
11. Language of documents	0 = documents only published in one language/one working language 0.5 = documents published in more than one language 1 = every members' language	<u>ICN Operational Framework 2012</u> "English is the interim working language of the Steering Group, Working Groups, ICN web-site infrastructure and the Annual Conference." (= 0.5)
12. Existence of a communication office	0 = no such service 0.5 = included in secretariat 1 = separate unit	<u>INECE 2012 Operating Protocol</u> "The INECE Secretariat provides technical, administrative, and communications support for INECE." (= 0.5)
Legality: Constitutional basis	13. Governance document (statute or the like)	0 = no governance document 0.5 = governance document needs approval by majority of members or consensus of a subset of members
		<u>IMPEL, Rules 2012</u> "Amendments to the Internal Rules require a two-thirds majority of the National IMPEL Coordinators or the National IMPEL Representatives present." (= 0.5)

		1 = governance document needs unanimity approval by all members/the assembly	
Accountability: Monitoring sanctioning	14. (Internal) Accountability of “leading body” (Board, executive committee, etc.)	0 = no monitoring/sanction provisions 0.5 = LB members can be dismissed by unanimity vote of all members/assembly 1 = LB members can be dismissed by majority vote of members/assembly	<u>EBA, REGULATION (EU) No 1093/2010. Art. 43. 8.</u> "The Board of Supervisors shall exercise disciplinary authority over the Chairperson and the Executive Director and may remove them from office in accordance with Article 48(5) or 51(5) respectively." (= 1)
	15. (External, financial) Accountability of network	0 = independent funding (e.g., membership fees) / own reserve fund / no funding sources mentioned 0.5 = partially external funded / long-term commitments 1 = completely external funded	<u>EBA, REGULATION (EU) No 1093/2010. (59)</u> "(...) the Authority should be granted an autonomous budget with revenues mainly from obligatory contributions from national supervisory authorities and from the General Budget of the European Union." (= 0.5)

16. (External, judicial) Accountability of Network	0 = no official legal status 1 = official legal status in a country	<u>EBA, REGULATION (EU) No 1093/2010. Art. 5. 1.</u> "The Authority shall be a Union body with legal personality. 2. In each Member State, the Authority shall enjoy the most extensive legal capacity accorded to legal persons under national law." (= 1)
17. (External, civil) Complaint mechanism (e.g. Ombudsman)	0 = no such mechanism 1 = mechanism(s) present	<u>EBA, REGULATION (EU) No 1093/2010. Art. 72. 2.</u> "Decisions taken by the Authority pursuant to Article 8 of Regulation (EC) No 1049/2001 may be the subject of a complaint to the Ombudsman or of proceedings before the Court of Justice of the European Union (...)" (= 1)

Reasoning: Openness to counter-argument	18. Participation in projects/clusters etc.	0 = participation restricted 1 = participation open for every interested member	<u>ICN Operational Framework 2012</u> "All ICN members are welcome and encouraged to participate and
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contribute to Working Group activities and products." (= 1)

19. Measures to encourage equal participation

0 = no such measures
0.5 = measures to enable participation (excluding financial support, e.g., rotation system)
1 = financial support

ICN Operational Framework 2012
"Limited Funding is available for eligible ICN members to attend ICN events." (= 1)

Output

Effective:
Evaluation of goal-attainment

20. Evaluation of goal attainment

0 = no formal provisions
0.5 = internal evaluations by network subcommittee (or higher body)
1 = external evaluation by independent organization such as a consultancy firm

IMPEL, rules 2012
"Based on the Clusters' report the General Assembly will evaluate the implementation of the AWP fulfilled at the previous year, and advancement of the MASP." (= 0.5)

Efficient:
Evaluation of

21. Evaluation of cost efficiency / Audit

0 = no formal provisions

EBA (CEBS), Annual Report 2005, pp.40:

costs/time/
effectiveness ratio

0.5 = internal
evaluations/approval by network
subcommittee
1 = external evaluation/approval
by independent organization such
as a consultancy firm

"The statutory accounts of CEBS Secretariat Limited for the period ended 31 December 2005 have been delivered to the Registrar of Companies and CEBS Secretariat Limited has received an audit report which was unqualified." (= 1)

Appendix B4: Operationalization of authority

Delegation of authority to non-state bodies		Pooling (in the collective body of the TGN)	
[A] <i>Delegation of authority to a body composed of:</i>		[C] <i>Membership composition of the collective body of the TGN (main type of members):</i>	
- non-state actors	1	- member states, including governmental departments	1
- subgroup of member states / partly non-state	0.5	- non-state actors / no such body	0
- no such body	0		
[B] <i>Decision-making competences of this body:</i>		[D] <i>Mode of decision-making in collective body:</i>	
<u>Discretion over budget:</u>		- majority voting (simple or absolute)	1
- full discretion	1	- consensus	0.5

- partial discretion	0.5	- unanimity / no rule / no such body	0
- none / no budget	0		
<u>Discretion over organization (constitution):</u>			
- full discretion	1	[E] (<i>Aspired</i>) <i>bindingness of network decisions:</i>	
- partial discretion	0.5	- decisions are binding (members shall / are expected to comply)	1
- none	0	- drafting / proposing regulatory standards (recommendations)	0.5
		- monitoring / promoting implementation of existing regulations	0
<u>Discretion over (internal) policy-making</u>			
- full discretion	1		
- partial discretion	0.5		
- none	0		

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EDUCATION

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PhD in International Affairs and Political Economy (DIA).
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Thesis title: “Does Depoliticization Work? An Analysis of Global
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MSc. International Political Economy
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Thesis title: “For Wall Street or Main Street? Quantitative Easing,
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Dublin City University, School of Law and Government, Dublin,
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ACADEMIC EMPLOYMENT

January 2022 –

University of St. Gallen, Switzerland

Researcher at the Chair of Comparative Politics

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University of St. Gallen, Switzerland

Doctoral researcher at the Chair of Comparative Politics

Project: “Democratic governance in and through trans-governmental networks”, funded by the Swiss National Science Foundations (NCCR ‘Democracy’)

Key tasks: Institutional analysis of finance and banking networks.

PUBLICATIONS

"Populism and New Radical-Right Parties: the case of Vox", with H. Marcos Marne and C. Plaza Colodro. *Politics* (Online First)

Works in progress:

“The impact of financial firm’s diverging interest rate preferences on U.S. monetary policy”. Target Journal: *New Political Economy*.

“Transgovernmental Networks and Democratic Governance”, with T. Freyburg, S. Lavenex and I. Krizic. Target Journal: *Governance*.

“Power Politics in the Taxation of Transnational Corporations”. Target Journal: *Review of International Political Economy*

CONFERENCES

Organization of panels

2017

Panel title: “The Politicization of Finance in the United States and the European Union”. Political Studies Association of Ireland, October 13 -15, Dublin, Ireland.

Conference Presentations

2022

“Power Politics in the Taxation of Transnational Corporations”. International Studies Association, March 28th - April 2nd, 2022, Kentucky, USA.

2020

“Transgovernmental Networks and Democratic Governance”, German Association for Political Science (International Relations Section), October 7-9. Freiburg, Germany.

“IP onshoring by US firms in Ireland: How BEPS 2.0 is rebalancing the structural power of firms.” ECPR General Conference, August 26-28, Vienna, Austria. (Cancelled)

“IP onshoring by US firms in Ireland: How BEPS 2.0 is rebalancing the structural power of firms.” Council for European Studies, June 22-24, Reykjavik. Iceland. (Cancelled)

2018

“The impact of financial firms’ diverging interest rate preferences on U.S. monetary policy”, Futures of Finance and Society, December 6-7, Edinburgh, Scotland.

“The impact of financial firms’ diverging interest rate preferences on U.S. monetary policy”, The Mid-West Political Science Association Annual Conference, April 5-8, Chicago, IL, USA.

“Transgovernmental Networks and Democratic Governance”, Swiss Political Science Association Annual Conference. February 5- 6, Geneva, Switzerland.

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“The impact of financial firms’ diverging interest rate preferences on U.S. monetary policy”, Council for European Studies. July 12 -14, Glasgow, Scotland.

“The impact of financial firms’ diverging interest rate preferences on U.S. monetary policy”, Political Science Association of Ireland, October 13 –15, Dublin, Ireland.

TEACHING

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PhD Program ‘Democracy Studies’. University of Zurich, Doctoral School for Democracy Studies. Zurich, Switzerland
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Machine Learning with R (4 ECTS)

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Time Series Analysis with Stata (4 ECTS)

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Regression I & II with Stata (8 ECTS)

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