

International Implications of National Financial Rules: Do Citizens Care?

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International finance is nationally regulated

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Lord Adair Turner, UK FSA, 2009 March

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“global banks are international in life but national in death”

Mervyn King, Bank of England, 2009 June

National rules and international implications

Theoretical tradeoffs of stability and competition

More stringent national regulations

Less stringent national regulations

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Nat'l financial regulations have int'l spillover effects

Research questions

1. How do elites discuss (i) stability and (ii) competition tradeoffs?

2. To which stability arguments do citizens most respond?

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- ▶ “Network”: national policy affects worldwide outcomes

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Interdependence logic
(often assume other countries will compete)

2. To which stability arguments do citizens most respond?

Network logic
(systemic stability)

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Overview

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Does elite rhetoric emphasize network effects?

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Overview

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Normative implications

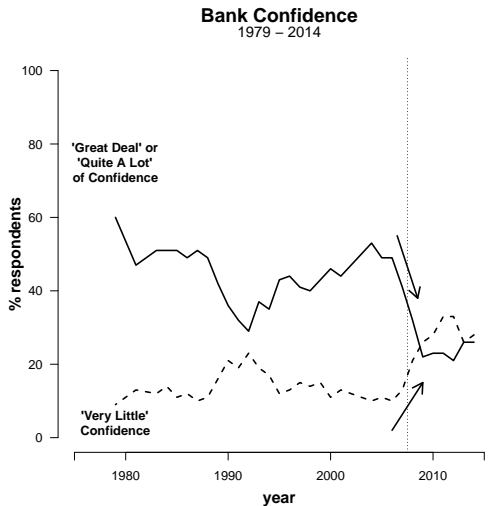
- ▶ This disconnect is part of elite failure to persuade citizens about globalization

Do citizens care about spillover effects?

Objective: Distinguish between three mechanisms of interest

- ▶ “Direct effects: national policy on national outcomes (no spillovers)
 - ▶ US financial regulations → US stability
- ▶ “Interdependence”: national policy affects third country outcomes
 - ▶ US financial regulations → European stability
- ▶ “Network”: national policy affects worldwide outcomes
 - ▶ US financial regulations → global stability

Surveys describe citizen preferences



SOURCE: Gallup

- ▶ Survey: *describe* one response group

Surveys describe citizen preferences

“do you think it is a good idea or a bad idea for the government to more strictly regulate the way large financial companies, such as banks, do business?”

(Percent respondents, “Good idea”)



SOURCE: Pew, Spring 2010

Survey *experiment* isolates each argument's distinct effects

Survey experiment

- ▶ 1,293 US respondents, July 2015

Survey instrument

1. Brief introduction
2. EXPERIMENTAL TREATMENT: randomly given one pro-reg arg
 - ▶ Direct
 - ▶ Interdependent
 - ▶ Network
 - ▶ (Placebo / Null)
3. OUTCOME OF INTEREST: asked about approval for stringent regs
4. Demographic/other questions

Pro-regulation arguments

“People believe that more strict [US] regulations will[...]

- ▶ **Direct Treatment:**

- ▶ **Interdependent Treatment:**

- ▶ **Network Treatment:**

Pro-regulation arguments

“People believe that more strict [US] regulations will[...]

- ▶ **Direct Treatment:**

[...] increase the stability of the United States financial sector,

- ▶ **Interdependent Treatment:**

increase the likelihood that foreign countries adopt similar regulation,

- ▶ **Network Treatment:**

increase the stability of the United States financial sector,

Pro-regulation arguments

“People believe that more strict [US] regulations will[...]

- ▶ **Direct Treatment:**

[...] increase the stability of the United States financial sector, which **increases the stability of the United States as a whole.**

- ▶ **Interdependent Treatment:**

increase the likelihood that foreign countries adopt similar regulation, which **increases the stability of foreign countries' financial sectors.**

- ▶ **Network Treatment:**

increase the stability of the United States financial sector, which **increases the stability of the global financial network as a whole.**

Pro-regulation arguments

“People believe that more strict [US] regulations will[...]

- ▶ **Direct Treatment:**

[...] increase the stability of the United States financial sector, which increases the stability of the United States as a whole.

This helps ensure that another financial crisis does not

occur in the United States.

- ▶ **Interdependent Treatment:**

increase the likelihood that foreign countries adopt similar regulation, which increases the stability of foreign countries' financial sectors.

This helps ensure that another financial crisis does not

occur in those other countries.

- ▶ **Network Treatment:**

increase the stability of the United States financial sector, which increases the stability of the global financial network as a whole.

This helps ensure that another financial crisis does not

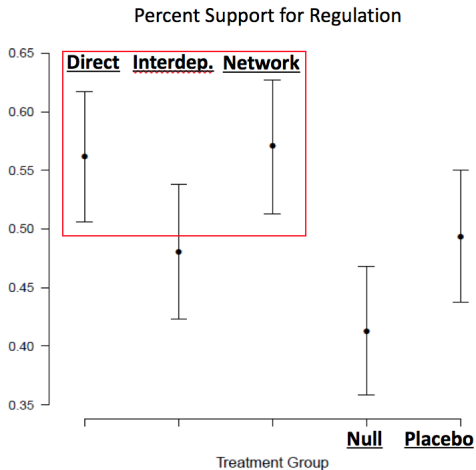
spread across countries.

Measuring support for national financial regulations

Outcome Variable:

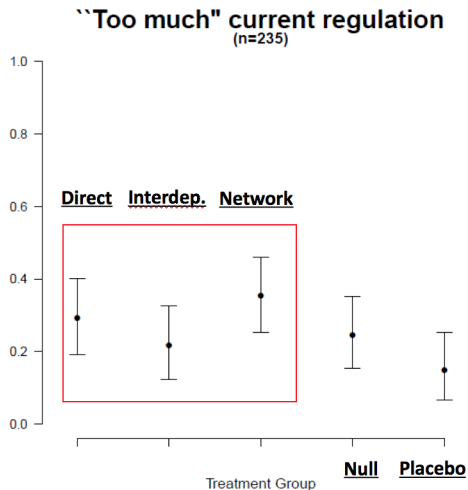
- ▶ Do you favor or oppose more strict regulation of the U.S. financial system?
- ▶ 7 pt scale, strongly favor \longleftrightarrow strongly oppose.

Main Treatment Effects

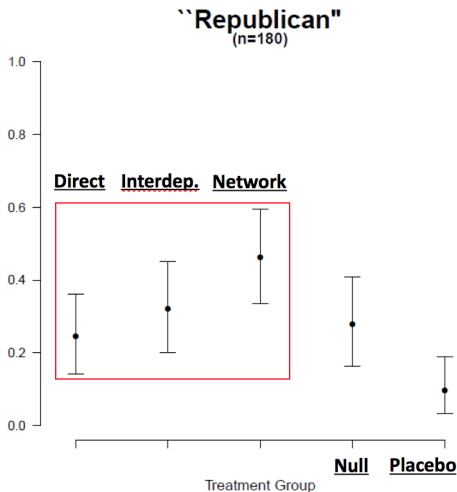


Bayesian point estimates and 95 percent credibility intervals

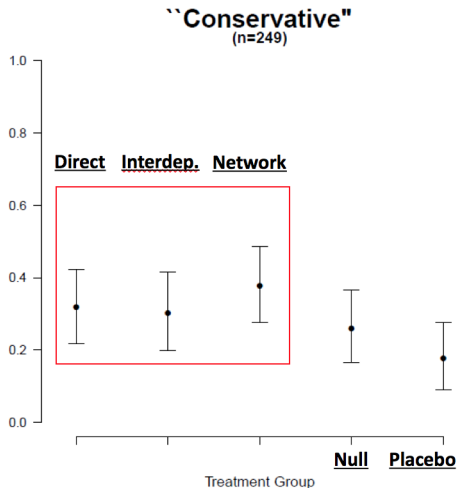
Treatment Effects: Anti Regulation Respondents



Treatment Effects: Republican Respondents



Treatment Effects: Conservative Respondents



Elites show concern about interdependence

2010 US Congressional testimony, re: US Dodd-Frank Act

- ▶ **Bob Corker (Senator, TN-R)**: If we ended up being out of sync with the rest of the world in areas that made us not competitive. . . would you come back and talk with us about those issues?
 - ▶ Competitiveness arguments
- ▶ **Lael Brainard (Witness, US Treasury)**: Other countries are going to want to move in the direction of Dodd-Frank... Many of the countries participating in the G-20 have, in fact, been waiting to see the final outlines of U.S. financial reforms because they want to move in that direction and emulate the systems that we are putting in place.
 - ▶ Interdependence arguments
- ▶ Less argument about the global financial network

Elites, the Public, and Globalization

It has recently become commonplace to argue that globalization can leave people behind, and that this can have severe political consequences. ... I welcome this belated acceptance of the blindingly obvious.

Kevin O'Rourke, Vox, August 2016

- ▶ Prominent backlashes against globalization: Brexit, TPP, US Elections
- ▶ Many emphasize globalization's distributional failures.
- ▶ *There's also a failure in elite persuasion.*

Treatment Effects: Conservative Respondents

	Trump Base	Trump Swing
	(1)	(2)
OEP	1.006 (.529)*	.208 (.383)
Interdep.	.460 (.550)	-.456 (.399)
Network	.334 (.511)	.927 (.385)**
Placebo	.373 (.557)	.375 (.392)
Constant	-.460 (.369)	-.208 (.264)
N	140	266