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Thomas Mosk

Captured by financial institutions? New academic insights for EU policy makers

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Leibniz Institute for Financial Research SAFE
Sustainable Architecture for Finance in Europe
policy_center@safe-frankfurt.de | www.safe-frankfurt.de

Captured by financial institutions?
New academic insights for European policymakers*

Thomas Mosk, University of Zurich, and Leibniz Institute SAFE

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Abstract

This policy white paper shows, using data on European Commission (EC) lobby meetings, that financial institutions and finance trade associations have substantial access to EC policymakers. While lobbying could transfer policy-relevant information and expertise to policymakers, it could also result in the capture of policymakers by the industry, which could harm consumers and taxpayers. How could policymakers prevent regulatory capture, but retain the benefits of the sector expertise in policy decisions? Awareness of regulatory capture by policymakers is one of the most important remedies. This paper provides an overview of the origins of the regulatory capture theory and recent academic evidence. The paper shows that regulatory capture could emerge in a variety of institutions and policy areas but is not ubiquitous and depends on the incentives of policymakers and the policy environment. Subsequently, the paper discusses various measures to prevent regulatory capture, such as more transparency, diverse expert groups, and cooling-off periods.

I. Introduction

In the last decade, the European Union (EU) became the most important regulator of financial institutions in Europe. This transition included the establishment of the European Banking Authority in 2011, the introduction of the banking union in 2014 and the ongoing talks on the Capital Markets Union. Due to their new role, financial institutions ramped up their efforts to lobby EU institutions. The Corporate Europe Observatory of 2014 estimated that: "In total, the financial industry spends more than €120 million per year on lobbying in Brussels and employs more than 1700 lobbyists." This SAFE white paper shows, using data on European Commission (EC) lobby meetings, that financial institutions and finance trade associations have substantial access to EC policymakers.

European Commissioners, the members of their Cabinets, and Director-Generals are required to disclose the dates, locations, participants, and topics of discussions in lobby meetings. Commissioner Valdis Dombrovskis and the Directorate-General (DG) for Financial Stability, Financial Services and

* SAFE policy papers represent the authors' personal opinions and do not necessarily reflect the views of the Leibniz Institute for Financial Research SAFE or its staff.

Capital Markets Union, John Berrigan, are responsible for most finance policy areas in the Von der Leyen commission. Spanning the period between December 2019 and September 2020, Commissioner Dombrovskis and Director-General John Berrigan disclosed 240 lobby meetings. These 240 lobby meetings reveal that (a) about half of the lobby meetings are with finance industry lobbyists, (b) most of the finance industry lobbying is done by finance trade associations, and (c) consumer groups rarely meet with European Commission representatives.

These stylized facts on lobby meeting provide insights on the activities which usually happen behind closed doors. However, just meeting data alone do not reveal whether lobbying benefits financial institutions. One important challenge is to disentangle "quid pro quo" benefits from information transmission. The specific sectorial knowledge and expertise of financial institutions could benefit policymakers in picking the right policy options and support resource-constraint legislators with similar political views. Further, financial institutions exert their fundamental right to petition the government, allowing interest groups to present their views on public decisions that may affect them. However, critics of the financial lobby argue that financial institutions *capture* the regulators and supervisors which are in charge of regulating them (e.g. Admati 2016). For example, bank supervisors might supervise less strictly, because of their plans to continue their career after their term in the industry. Regulatory capture could benefit a small group of financial institutions, while the costs will be borne by consumers and the society at large, for example, by paying higher prices for financial products, weaker consumer protection, or lower financial stability.

One of the most important remedies to reduce capture is policymakers' awareness of this risk (Zingales 2013). This white paper explains the theory of *regulatory capture* and discusses recent academic research on finance industry lobbying. These insights could help policymakers to assess the risk of regulatory capture in their daily work. Finally, the paper discusses various measures to prevent regulatory capture, such as more transparency, diverse expert groups, and policies reducing quid-pro-quo opportunities.

II. Access of the finance industry to the European Commission

This section provides several stylized facts of the finance industry access to European Union institutions, using European Commission lobby meeting disclosure data. In 2014, the European Commission passed a decision that requires European Commissioners, the members of their Cabinets, and Director-Generals to publish the dates, locations, names, and topics of discussion in lobby meetings on their websites. These lobby meetings include meetings with multiple interest groups and bilateral meetings. Commissioner Valdis Dombrovskis is in the Von der Leyen commission (2019-2024) responsible for most finance policy areas, such as the banking union, green finance, the European

Central Bank, money laundering, financial stability, and broader macroeconomic policies. The Directorate-General for Financial Stability, Financial Services and Capital Markets Union is the Commission department responsible for EU policy on banking and finance, headed by DG John Berrigan. Of all 4,061 Von der Leyen commission lobby meetings, spanning from December 2019 to September 2020, 174 lobby meetings were with Commissioner Dombrovskis and his cabinet and 66 with Director-General John Berrigan (source: integritywatch.eu).[1] Table 1 reports the distributions of lobby organization types that met with Commissioner Dombrovskis, his cabinet, and DG Berrigan, revealing the following three observations:

- About half of the lobby meetings are with finance industry lobbyists
- Most of the finance industry lobbying is done by finance trade associations
- Consumer groups rarely meet with European Commission representatives

The first observation, that commission representatives most frequently meet with companies and industry representatives, is consistent with Transparency International (2015), showing that 75 percent of total meetings are with industry representatives. The second observation is that finance trade associations play an important role in the industry's lobbying effort. Finance trade associations are associations in a specific sector of the finance industry (e.g. commercial banks, insurance firms) for the advancement of members' common interests. Examples of European finance trade associations are the Association for Financial Markets in Europe (AFME), Insurance Europe, and national trade associations, such as the Bundesverband deutscher Banken, and the Fédération bancaire française. Lobbying is one of the main activities of finance trade associations, but they also organize conferences, trainings, networking events, publish magazines and educational materials, and engage in advertising and public relations. Finance trade associations do not only play an important role in the policy process in Europe. Adams and Mosk (2020) show that finance trade associations account for 41 percent of the industries' campaign contributions and 36 percent of the industry's lobby expenditures in the United States. European consumers are widely dispersed and thus face more difficulties in organizing themselves, which could reflect the small number of consumer groups participating in commission meetings. Other interest groups are the chambers of commerce, firms from other industries, and trade unions. As reported in table 1, these organizations are more likely to have meetings with commissioner Dombrovskis and his cabinet because their portfolio is broader than just financial markets, including societal and environmental goals as well as the digital transition. The most frequently lobbied topics

[1] Integrity Watch is an online database, funded by Transparency International EU, that collects meeting disclosure data from webpages of EC officials, and has been used by journalists and researchers to study lobbying in the EU (e.g. Biguri and Stahl 2019).

are COVID-19 relief measures (23 percent of the meetings), sustainable finance (14 %), the Capital Markets Union (14%), and Basel III (10%).

Lobby meeting disclosures provide some insights on the activities which usually happen behind closed doors. However, simply observing that these meetings took place neither provides evidence that EC officials were captured by the finance industry, nor prevents regulatory capture from happening in the future. One of the most important remedies to reduce capture is to create awareness. The next two sections therefore discuss in detail the origins of regulatory capture theory, different types of capture and the economic mechanisms giving rise to regulatory capture, and state-of-the-art academic research on the finance industry lobby that studies the effect of lobbying on policies and the benefits to lobbying institutions.

Table 1: Lobby meetings of Commissioner Dombrovskis and DG FISMA

	Total	Commissioner Dombrovskis and cabinet	DG FISMA
Finance trade associations (%)	30	29	33
Financial institutions (%)	25	20	39
Consumer groups (%)	4	5	2
Other interest groups (%)	41	48	26
Meetings (#)	240	174	66

Table 1 provides an overview of the distribution of the participants of lobby meetings with Commissioner Dombrovskis and cabinet and the department for financial stability and capital markets (DG FISMA) between December 2019 and September 2020. Source: integritywatch.eu

III. The regulatory capture theory

A. Foundations of the regulatory capture theory

An important question for economists and political scientists is to explain why governments intervene in industries. Two main theoretical paradigms are the "public interest" theory, which stresses the role of the government to correct market imperfections such as monopolies and externalities of industries on the environment, and the "regulatory capture" theory, which emphasizes the role of interest groups on public policy. An important building block of interest group-based theories is Mancur Olson's theory of collective action. In "The Logic of Collective Action" (1965), he argued that capitalist democracies consist of special interest groups, which influence the government to provide special subsidies, laws, and barriers to competition that benefit them. However, individuals in any group attempting collective action to attain a special government treatment, have incentives to "free ride" on the efforts of other group members. In larger groups, free riding is problematic because the per person benefits from collective action are small. In smaller groups, however, individuals are more incentivized to participate in a collective action because of their large per person gains. George Stigler extended these ideas in his "Theory of Economic Regulation" (1972), and argued that regulation, which is presumably enacted to protect the public, will eventually be "captured" by the very industries that are supposed to be "regulated". The dispersed public, such as consumers, will face a stronger free rider problem and lose in the democratic battle from small industry coalitions. Peltzman (1976) refined and expanded Stigler's theory of regulatory capture, by arguing that regulators face both consumer and industry demands for regulation. In his model, the regulator does not blindly deliver what the industry wants but arbitrates between the interest of both consumer and industry. The resulting regulations neither perfectly protect consumers against market power, nor give full market power to the industry.

More recent theoretical models more carefully distinguished the incentives faced by legislators and their agents. Laffont and Tirole (1991), for example, studied in a principal-agency framework the conflict between a legislator (the principal) and a supervisory agency (the agent). The supervisory agency has the time and resources to discover information about the real production costs of the regulated firm but could hide this information from the legislator and obtain an information rent through colluding with the regulated firm, which results in a reduction of social welfare.[2] Another branch of the theoretical literature studies the channels how lobbying interest groups could influence public policy. Interests groups may use resources such as campaign contributions to 'buy' favorable votes (Grossman and Helpman 1994, 2001), or transmit policy-relevant information (Austen-Smith and Wright 1992).

B. Economic mechanisms enabling regulatory capture

One strand of the academic literature analyzes the incentives of regulators and supervisors that could exacerbate regulatory capture problems. One important cause of regulatory capture are *quid-pro-quo* arrangements between government officials and the finance industry. One example are campaign contributions supporting the election of a specific party or politician. Another example are career opportunities in the financial sector after the end of the term of a politician or supervisor. These *revolving doors* of public employees between the official and private sector could incentivize public employees to soften their regulatory stance owing to the prospect of future lucrative employment in the private sector (Eckert 1981).[3] Another, more subtle way of capture is through *cultural capture*. People are not only motivated by monetary incentives but are also willing to exert when they are able to identify themselves with the values and the culture of an industry. The finance industry could influence supervisors (Kwak 2014) and even academic economists (Zingales 2013) if they share the

[2] dal Bó (2006) provides an excellent overview of the theoretical models of the regulatory capture theory, their merits, and limitations.

[3] An alternative revolving doors theory is that supervisors are hired by the financial sector primarily for their expertise, which gives them greater incentive to invest in their industry qualifications (Bar-Isaac and Shapiro, 2011).

same values or social networks with financial institutions. Here, the problem is not that government officials are offered quid-pro-quo benefits, but rather that their decision-making becomes biased towards the worldview of financial lobby groups, which may also be perceived as coinciding with public interests. This is problematic if financial interest groups have specific important expertise on the issue (Ramanna 2015).

IV. Recent academic evidence

Academic studies on regulatory capture could provide deeper insights under which circumstances regulatory capture might occur. The empirical evidence on determinants of regulatory capture is still scarce (dal Bó 2006).[4] This section provides a summary of four recent studies (Adams and Mosk 2020), (Biguri and Stahl 2019), (Schneider et al. 2019), and (Lambert 2020). The first two papers study regulatory capture in the legislative process in the US and the EU, while the last two papers study regulatory capture in bank supervision, exemplifying that capture could emerge in different policy environments.

Evidence from trade association letters to Congress

In a recent study, Adams and Mosk (2020) examine the influence of the finance industry on the legislative process. One important challenge to study the link between lobbying activities and legislative outcomes is that one typically does not know if the lobbyists are for or against the passage of a bill. This makes it difficult to connect amounts invested in lobbying with specific outcomes. The paper exploits letters from finance trade associations circumvent this measurement problem. In these letters, trade associations express their policy positions on specific bills, allowing to link trade association campaign contributions to the legislative outcomes they publicly support or oppose. Trade associations are important players in the lobby effort of the finance industry. They account for 41 percent of the industry's total campaign contributions and for 36 percent of the total industry lobby expenditures and their members individually and jointly account for a large part of industry members and assets. When one considers, for example, that members of the American Banking Association (ABA), the banking industry's largest trade association, hold 95 percent of the banking industry's assets, it is not farfetched to conclude that ABA letters to Congress express the aggregated positions of the banking industry.

Trade association associations could attempt to influence various stages of the legislative process. To illustrate the legislative stages at which campaign contributions could, in theory, affect the behavior of Congress members, Figure 1 provides a timeline of the legislative process in the context of the Home

[4] dal Bó (2006) provides an overview of the empirical literature on capture and policy outcomes, revolving doors, and the influence of consumer advocacy groups.

Buyers Assistance Act. Representative French Hill from Arkansas introduced the bill on July 23rd 2015 with the objective of delaying the enforcement of mortgage disclosure requirements by the Consumer Financial Protection Bureau. After its introduction, the bill was referred to the Financial Services Committee for consideration. The committee discussed the bill in a mark-up session, voted in favor of the bill and reported the bill to the House on October 1st. The full House debated the bill and passed the bill in a roll call vote on October 7th with 303 Yea votes against 121 Nay votes. But the bill did not pass the Senate.[5] As Figure 1 illustrates, measurable Congress member behavior that could be subject to influence from the industry occur in the introduction phase, during which bills are "sponsored" or "co-sponsored" by Congress members, in the "committee phase", during which committee member make amendments and vote on the motion to report the bill to the House, and in the floor phase, during which Congress members can propose amendments to and vote on bills. The paper links finance trade association campaign contributions and 631 letters from the 10 largest financial sector trade associations to Congress(wo)men behavior referring to 581 bills scheduled for consideration in Congress over the period 1999 to 2018. The letters express the positions of the trade association or group explicitly and prominently, usually in the subject or first paragraph, for example "I am writing on behalf of the Credit Union National Association (CUNA) to express our support for H.R.3758, the Senior Safe Act of 2017".

Studying the relationship between campaign contributions and legislative behavior comes with several empirical challenges. The most important one is that campaign contributions may affect a Congresswoman's or Congressman's behavior, whose pro- (or anti-) finance ideology may also affect the amount of campaign contributions she or he gets from the financial industry (reverse causality). For example, 55 percent of Representative Blaine Luetkemeyer's contributions to his 2016 campaign came from the finance sector. But this may be because Luetkemeyer's family owns a community bank and he has been a long-term supporter of community banks, not because the industry has a desire to affect his behavior. This study addresses this challenge by investigating whether changes in campaign contributions over time predict their legislative behavior aligned with the interests of the financial industry. Instead of comparing Congress members with small and large contributions from the financial sector (which is potentially driven by the ideology of the Congresswoman or Congressman), this strategy follows individual Congress members over time. Since ideology is often assumed to be constant over time, this strategy reduces reverse causality concerns. The paper finds that an increase in trade association campaign contributions to the same Congress member, increases the likelihood of introducing bills and voting in line with the positions of finance trade association. A one-standard

[5] A more elaborate explanation of the legislative process is available on the House website: https://www.house.gov/the-house-explained/the-legislative-process.

deviation increase in contributions is associated with a 1.8 percentage point increase in the probability of voting for the passage of a trade association supported bill.

Figure 1: The legislative process

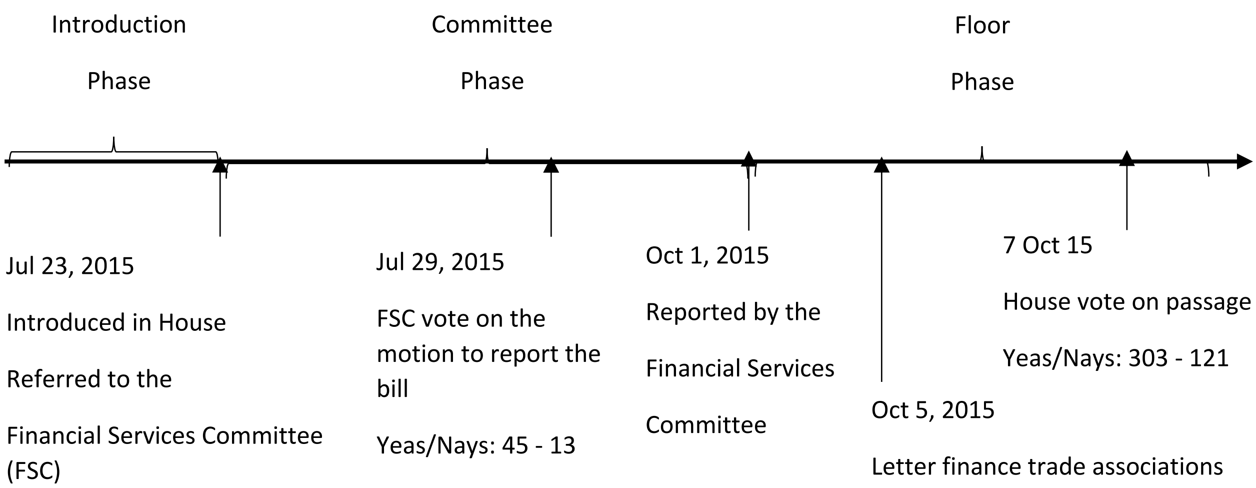

Figure 1 (adapted from Adams and Mosk 2020) shows the timeline with the key legislative dates of the Home Buyers Assistance Act (H.R.3192, 114th Congress), a bill introduced to prohibit enforcement of home mortgage disclosure requirements.

One of the main contributions of the paper is that it studies the effect of campaign contributions over the entire legislative process (see Figure 1), while the existing literature usually only studies the effect of campaign contributions on the passage vote.[6] The evidence on the influence of campaign contributions on voting appears mixed. Some studies find a positive relationship between contributions and voting, in line with the regulatory capture theory, while others find no or even a negative relationship. One explanation for these mixed results is that the influence of contributions is most likely to occur earlier in the legislative process, in the drafting phase of the bill in congressional committees, where less visible actions are taken to kill bills quietly or to include important amendments for the industry. To study the influence of trade association in the early stages of the legislative process, the paper collects information on the 'original co-sponsors' – the congress members that introduce the bill – and the votes on the bill in congressional committees, such as the Financial Services Committee. The results suggest that a focus on voting alone does not fully capture the industry's influence on the legislative process. Congress members experiencing an increase in trade association campaign contributions are more likely to introduce bills and vote for bills in the congressional committee that are supported by finance trade associations. Campaign contributions thus influence actions of congress members at every stage of the legislative process, from the initial sponsoring of a bill through the amendment process to the passage of the bill after a vote.

[6] Ansolabehere et al. (2003) provide an overview of this literature on campaign contributions.

The final part of the paper studies the effect of the appointment of Congress members to the Financial Services Committee on legislative behavior. The Financial Services Committee of the House of Representatives oversees the US housing and financial services sector and is therefore one of the most important congressional committees for the industry. The appointment of a Congress member is associated with a strong increase in finance industry campaign contributions and lobbying. Figure 2 shows that the legislative behavior of Congress members in the two years before their appointment to the Financial Services Committee are not significantly different from the behavior of other Congress members. However, after their appointment to the Financial Services Committee, these Congress members more likely introduce bills in line with the positions of finance trade associations. These findings are in line with the view that contributions rather buy access to committee members, than votes. Financial services committee members are less likely to introduce legislation supported by consumer groups, suggesting that Congress members tilt their bill-sponsoring activity towards bills supported by trade associations and away from bills supported by consumer groups.

Figure 2: The effect of Financial Services Committee appointment on legislative behavior

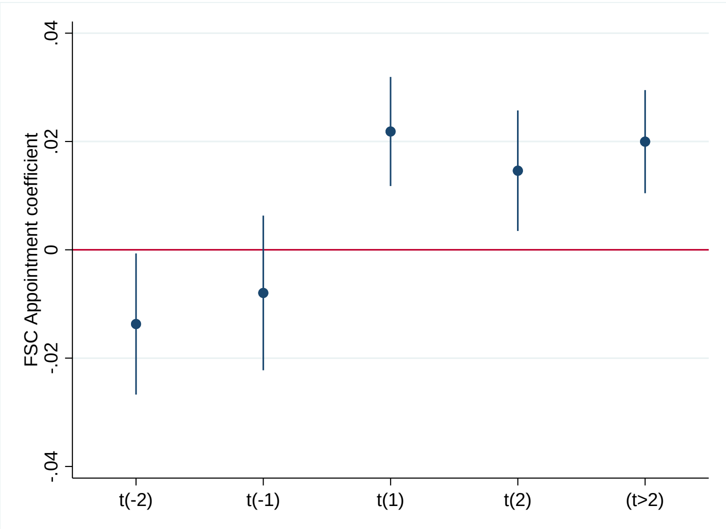

Figure 2 (adapted from Adams and Mosk 2020) shows the likelihood that Congress members introduce new bills in line with the interests of finance trade associations t(-2) and t(-1) years before the appointment to the Financial Services Committee and t(1), t(2), t(>2) years after the appointment, compared with the legislative behavior of Congress members which have not been appointed to the Financial Services Committee. The figure shows that the likelihood of introducing legislation in line with the preferences of finance trade association increase after the appointment of a Congress member to the Financial Services Committee.

Evidence from meetings of US companies with the European Commission

Biguri and Stahl (2020) exploit the European Commission (EC) meeting database and focus on meetings between large US corporations with policymakers to measure direct cross-border access. They firstly quantify the value of political access by examining the stock returns around the date of the meeting with the policymaker. They show that meetings with Commissioners are associated with about 0.5 to 0.8 percent abnormal returns following the encounter, suggesting that these firms benefit from meeting policymakers. There are several channels through which meetings with EC officials could add value to US firms. The paper finds that US firms with an EC meeting are more likely to get a favorable merger approval decision than US firms without such a meeting. The likelihood of an unconditional approval of a merger is about 20 to 30% higher for firms with political access. A second channel they investigate is whether access to EC officials could bring tax benefits to the firm. They find that the firm's sensitivity to the EU tax environment, measured by the number of subsidiaries of the firm in EU tax havens, is a strong predictor of meetings with the EC.

Evidence from bank stress tests

After the financial crises, "stress tests" became one of the standard instruments in the toolbox of bank supervisors to assess the health of the banking system. Some analysts suspected that one of the first stress tests of the European Banking Authority was too lenient, which raises the question whether supervisors were captured by large banks which had large interests to pass the test. Schneider et al. (2019) investigate this question empirically by comparing the effects of Federal Reserve stress tests across banks, focusing on differences between banks that are most likely to be able to influence regulatory decisions and less influential banks. They use three metrics to capture the potential influence of banks on their regulators: an indicator for the largest six bank holding companies, an indicator for banks with executive officers who have held a senior positions at bank regulators, and the sum of political contributions made by banks to political candidates over the past two congressional election cycles. The regulatory capture theory would predict that regulatory or political connections help firms gain favoritism, which might lead to more leniency under the tests. The authors find little evidence that banks, which are well connected to regulators, are less affected by the stress tests, although they are less likely to fail the stress tests. Campaign contributions are not correlated with any stress test outcome. These results are thus more consistent with a public interest view of regulation than regulatory capture.

Evidence from enforcement actions

Lambert (2018) analyzes the relationship between bank lobbying and supervisory enforcement. Supervisory enforcement actions are initiated when supervisors identify managerial or financial problems during their bank examination that aims to restore the stability of the institution. Examples of enforcement actions are monetary penalties or interventions in the management of the bank. Supervisors, however, have substantial discretion to choose which type of enforcement actions they impose. The main result of the paper is that lobbying banks have a 44.7 percent lower change of a severe enforcement action, and one additional year of lobbying experience reduces this probability by 11.4 percentage points. One explanation for this result is regulatory capture, while the alternative explanation is that lobbying efforts of the bank transmit useful information to supervisors. Further results show that lobbying banks took more risks and expanded their portfolio more aggressively in the run up of the financial crisis, consistent with the regulatory capture explanation.

Table 2 provides an overview of the four papers discussed. The papers show that regulatory capture could emerge in a variety of institutions and policy areas. However, the fact that Schneider et al. (2019) find little evidence that either political or regulatory connections affect the outcome of stress tests shows that regulatory capture is not ubiquitous. These studies help to identify situations in which the risk of regulatory capture is more substantial. To identify these situations outside of these case studies, one could ask two specific questions: (1) What are the incentives of government officials to behave in line with the interests of the finance industry? and (2) Has the finance industry policy relevant information or expertise, which is not present at other interest groups or the government institution itself? In an environment in which policymakers have incentives to behave in line with the interests of the finance industry or in which the finance industry has an information monopoly, it is important that policymakers are aware of regulatory capture and take measures to mitigate the risks of capture.

Table 2: Evidence on regulatory capture

Paper	Policy area	Institution	Capture?
Adams and Mosk (2020)	Financial regulation	Congress	YES
Biguri and Stahl (2019)	Competition / Tax regulation	European Commission	YES
Schneider et al. (2019)	Stress tests	Federal Reserve	NO
Lambert (2018)	Enforcement actions	Supervisory agencies	YES

V. Measures to prevent regulatory capture

How could policymakers prevent regulatory capture, but retain the benefits of the sector expertise in policy decisions? A blunt policy measure to prevent regulatory capture is to forbit any communication between the financial sector and policymakers. However, a communication ban would throw the baby out with the bathwater. Policymakers should benefit from the expert knowledge of the sector, but implement measures that prevent regulatory capture. This final section discusses three specific policies: transparency, diverse expert opinions, and policies reducing quid-pro-quo opportunities.

1. Transparency

One finding discussed in the previous section is that trade associations often attempt to influence new regulation over the entire legislative process, in particular in the legislative drafting phase. The EC meeting data shows that trade associations frequently discuss current legislative proposals, such as the Capital Markets Union, with EC officials. While the EU transparency register and lobby meeting disclosures are a step forward, they do not reveal the positions or proposals of the lobbyist and whether they have been implemented. One proposal (Transparency International 2015) is to introduce a "legislative footprint", which tracks and summarizes external input and contact between lobbyists and public officials/representatives for all legislative proposals, and other decision-making processes. In Latvia, for example, any draft law that comes before the Latvian parliament should enclose a list with all consultations that have been held while preparing the draft law. Ideally, the footprint also includes all versions and changes/amendments allowing and the comments of specific interest groups in the legislative process, allowing to study the influence of interest groups on the final version of the law.[7] Although the role of money in politics in the US is infamous, the country has at the same time strong lobby and campaign finance regulation, requiring disclosure of all political gifts above 200 dollars, and a lobby registry, requiring lobbying organizations to quarterly report their lobby expenses, lobby issues, target institutions or agencies and names of the lobbyists. This level of transparency allows to link lobby spending on a specific issue to lobbyists and clients and therefore to study the link between lobbying and outcomes (e.g. Lambert 2018). More transparency on lobbying activities in the EU (e.g. expenses, clients, issues) and a clear overview on the external input in the decision-making processes provide more possibilities for journalists and researchers to investigate the connection between lobbying and policy outcomes, and increases the accountability of public officials.

[7] In the US, regulatory agencies disclose all comments from public consultations on bureaucratic rules. Yackee and Yackee (2006) analyze over 30 US bureaucratic rules and almost 1,700 comments over the period of 1994 to 2001, and show that business commenters, but not non-business commenters, hold important influence over the content of final rules.

2. Diverse expert opinions

It is difficult to provide empirical evidence of *intellectual capture*. One must disentangle the effect of finance industry informational lobbying efforts from the personal beliefs and knowledge of the public official. However, in practice, it is relatively straightforward to identify policy areas in which intellectual capture form a larger risk. For highly technical policy areas which are not covered by the media, financial institutions have large stakes and a monopoly on policy specific knowledge (e.g. the tax deductibility of CoCo's). One remedy during the policy process, as policymaker, is to organize balanced groups with experts from the finance industry, from academia, from independent think tanks and from civil organizations, such as consumer groups and labor unions. Another tool is to precisely document the original proposal, the positions of the industry, and the changes in the documents, to clearly track the influence by different interest groups on the final document.

3. Policies reducing quid-pro-quo opportunities

Two main quid-pro-quo mechanisms are campaign contributions and career opportunities in the finance industry (revolving doors). Campaign contributions provide strong incentives in the US because individual politicians must raise their own campaign budget, while campaign financing in Europe is primarily organized at the party level, which reduces the risk that individual politicians are captured by the finance industry. Therefore, this White Paper focuses on European regulation that must prevent revolving door incentives. In the EU, Commissioners, when they leave office, must abide an 18-month notification period in which they require commission authorization for any new job, and they are also banned for 18 months from lobbying the Commission. The most senior EU officials are prohibited for 12 months to engage in lobbying activities on matters for which they were responsible during the last three years in their service. In addition, the EU "Code of Conduct for high-level European Central Bank Officials" requires "comprehensive and formal processes" that prevent conflicts of interest, including the possibility of "cooling off" periods of up to two years. However, contracting agents (25 percent of the Commission workforce) are largely excluded from these rules. Therefore, each EU institution should assess which job roles decide on important issues for the finance industry (from new regulation to enforcement actions) and how future career concerns could influence these decisions. If future career concerns could potentially corrupt decision-making, institutions should implement cooling-off periods for these employees in order to prevent conflicts of interest.

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