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# The politics of financial regulation expertise: international financial organizations and expert networks

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# GEGI Working Paper

RESEARCH FROM THE GLOBAL ECONOMIC GOVERNANCE INITIATIVE

## **The Politics of Financial Regulation Expertise: International Financial Organizations and Expert Networks**

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### **Abstract**

Who controls global policy debates on shadow banking regulation? By looking at the policy recommendations of the Bank of International Settlements, the International Monetary Fund and the Financial Stability Board, we show how experts tied to these institutions secured control over how shadow banking is treated. In so doing, these technocrats reinforced each other's expertise and excluded some potential competitors (legal scholars), coopted others (select Fed and elite academic economists). The findings have important implications for studying the relationship between IOs technocrats and experts from other professional fields.

## **Introduction**

Shadow banking is a new topic in international political economy (IPE) and the sparse literature on this topic has little to say about the politics of expertise. So far, some scholars focused on the inadequacy of the early regulatory responses (Thiemann 2014; Rixen 2013), while others looked at the role of pre-crisis regulatory arbitrage and the search for yield as key mechanisms in the growth of shadow banking and its role in the 2008 financial melt-down (Tabb 2012; Lysandrou and Nesvetailova 2014).

Blyth (2013), Gabor (2014; 2015) and Gabor and Ban (2015) brought to the fore the repo market as a site of shadow banking activity intimately connected with systemic risk dynamics. Duncan Wigan and colleagues uncover the previously unexplored relationship between shadow banking and the tax “optimization” strategies of transnational capital. Similarly, Daniela Gabor invites us to rethink the relationship between state treasuries and financial markets in a global financial system deeply transformed by shadow banking.

To date, the literature has been silent on whose regulatory ideas actually matter in the emerging global regulatory regime constituted by BIS, IMF and FSB. We try to fill in this gap by trying to speak to an emerging scholarship gives more explanatory weight to the intellectual entrepreneurship of IO economists than to what happens in academic environments (Ban 2015; Gallagher 2015).

## **Status and affiliation of shadow banking experts**

To map out the entire field of debate we did a biographical analysis of the professional status and affiliations of the authors published in all the relevant research reports for the three IOs.

Our readings of official IO reports came up with 182 names between 2009 and 2014. We then used network analysis to map the epistemic linkages that they developed with the regulatory triad. The sources cited by all three global governance institutions are the most influential (we dub them “senior brokers”), while those that are shared only by two are lower on the scale of epistemic status (“junior brokers”).

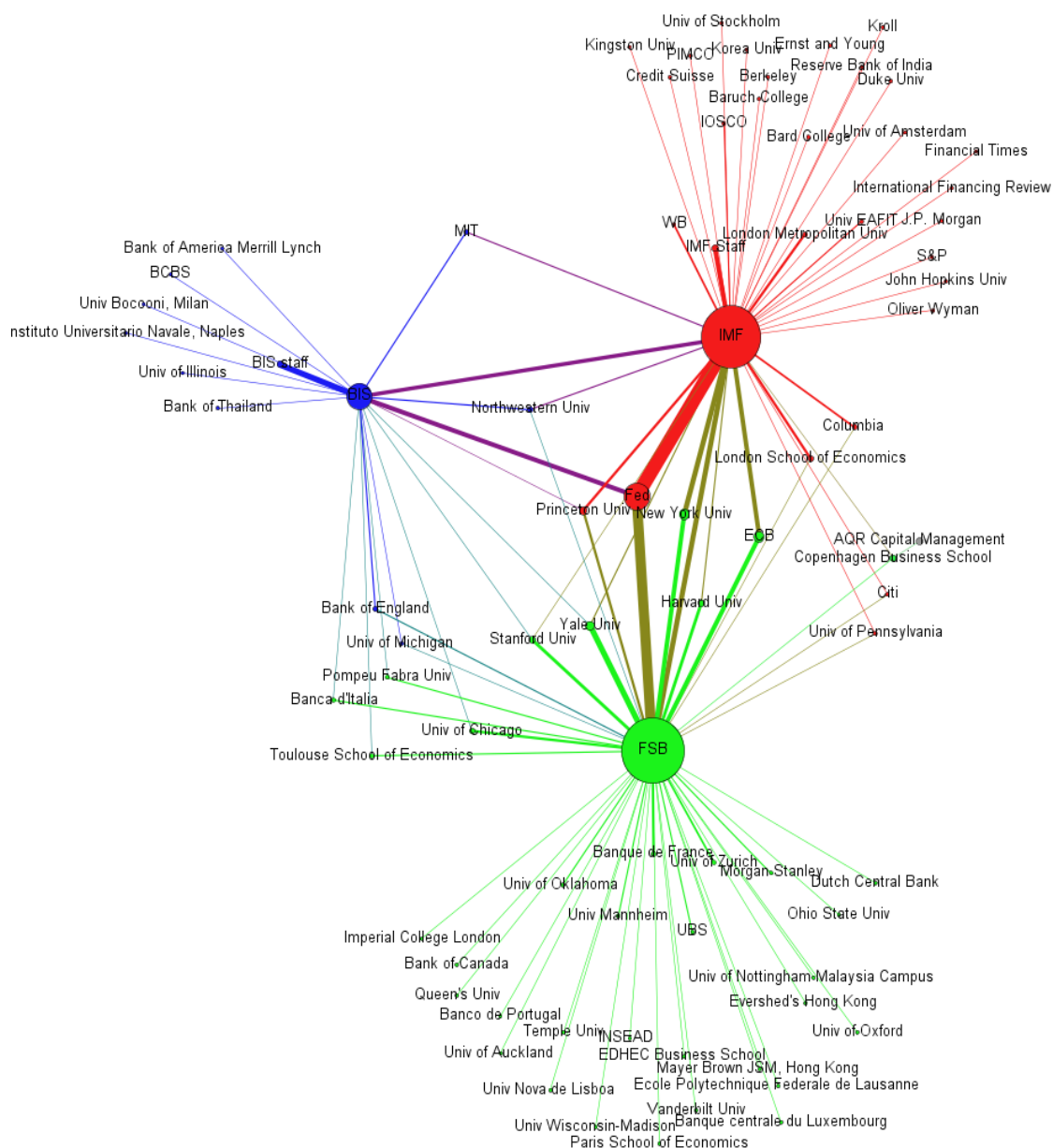
The findings are visualized in figure 1 and suggest that while legal profession may be prominent in domestic regulatory debates or in informally shaping global financial regulation, there is no evidence that its scholarship has any relevance in the thinking of these IOs. Critically, both the BIS and the IMF as well as the IMF and the FSB draw on their own staff and on Fed research (the most central node) as the chief source of expertise. Only the BIS and the FSB do not.

In line with conventional thinking, the high prestige academic names in this debate come from elite US universities. But contrary to conventional thinking, these academics are not economics departments faculty cited for their articles in flagship journals, but business school professors who are cited for papers showcased by think-tanks (Brookings Institute) or their own university (Chicago Booth). Also, as suggested in the next sections, all the academic authors of these papers with modest academic status but high policy value have used the revolving doors between academia and sites of (mainly American) policy power. This suggests that IO staff care less about the academic prestige of a publication or affiliation to an economics department than conventional thinking does.

Finally, while talk of American decline in global governance in the age of the rising Global South has become fashionable again (Gallagher 2015), the leading expertise on shadow banking regulation is entirely US-based. All the institutions that supply senior broker knowledge are US-based, with the Fed economists playing the leading role, followed by top economics departments (Yale, Princeton, Northwestern). The IMF relies on Fed-originated shadow banking research almost as much as it does on its own staff. In contrast, even though IMF data suggests the Eurozone has had a growing shadow banking sector after 2009 than the US has (IMF 2014), the central bank of the Eurozone is only a junior broker.

Although Anglo-American universities play second fiddle to internal IO expertise, they dominate the academic supplier pool of the IMF and the FSB. The landscape is more diverse regarding the sources shared by BIS and FSB, where University of Chicago and Bank of England experts are joined by those employed by continental institutions such as the Italian central bank, Spain's Pompeu Fabra University and France's Toulouse School of Economics. Outside of the narrow and elite pool of prime and secondary brokers, the range of institutions cited by a single IO is more diverse in terms of status and type, with Berkeley academics sharing the stage with J.P. Morgan, alongside an obscure navy institute from Sicily.

Figure 1: Citation network for BIS, IMF and FSB, by institutional affiliation at the time of authorship.



However, if academic economists are not important players in the overall network, they loom large if we zoom into the prime brokers' universe (Table 1). The data strongly suggests that a part of the crème de la crème in academic economics discussed in the next section and colleagues from MIT, Princeton, Harvard, Stanford, Columbia and NYU play prime knowledge broker functions, with their work cited by all three institutions (see the names in the boxes). The other prime brokers are from the Fed, IMF, the BIS.

*Table 1: Affiliation at time of publication of shadow banking expertise brokers (economists cited at least by two of the following: IMF, FSB and BIS)*

<b>Name</b>	<b>Affiliation</b>	<b>Cited by</b>
<b>Hyun Song Shin</b>	Princeton	IMF, FSB, BIS
<b>Zoltan Pozsar</b>	New York Fed	IMF, FSB, BIS
<b>Tobias Adrian</b>	New York Fed	IMF, FSB, BIS
<b>Adam Ashcraft</b>	New York Fed	IMF, FSB, BIS
<b>Hayley Boesky</b>	New York Fed	IMF, FSB, BIS
<b>Claudio Borio</b>	Bank of International Settlements	IMF, BIS
<b>Nikola Tarashev</b>	Bank of International Settlements	IMF, BIS
<b>Ricardo J. Caballero</b>	MIT	IMF, BIS
<b>Charles Calomiris</b>	Columbia; IMF; Shadow Open Market Committee	IMF, BIS
<b>Charles Goodhart</b>	London School of Economics	IMF, FSB
<b>Darrell Duffie</b>	Stanford University	IMF, FSB

<b>Manmohan Singh</b>	International Monetary Fund	IMF, FSB
<b>Viral V. Acharya</b>	NYU	IMF, FSB
<b>Gary Gorton</b>	Yale	IMF, FSB
<b>Andrew Metrick</b>	Yale	IMF, FSB
<b>Lasse Heje Pedersen</b>	NYU; Copenhagen Business School; AQR Capital Management	IMF, FSB
<b>Angela Maddaloni</b>	ECB	IMF, FSB
<b>T. Sabri Öncü</b>	NYU	IMF, FSB
<b>Antoine Martin</b>	New York Fed	FSB, BIS
<b>Adam Copeland</b>	New York Fed	FSB, BIS
<b>Dmitry Orlov</b>	Stanford University	FSB, BIS
<b>Stefan Nagel</b>	University of Michigan	FSB, BIS
<b>Jeremy Stein</b>	Harvard University	FSB, BIS

In short, the IOs tasked to produce policy templates for shadow banking regulation have drawn predominantly on their own expertise to define what is to be done about this critical pillar of global finance.

While the *crème de la crème* of academic economics remained relevant at the center of this network of influence (albeit not in the broader network), legal scholarship has been almost completely ignored in these IOs.

FSB staff have controlled agenda setting discussions by “firewalling” definitions of what shadow banking is and then focusing on measurements used in policy to control how shadow banking is assessed. Debates on how to define and measure shadow banking inevitably flow back to the FBS staff.

Although the IMF published working papers on shadow banking (Singh and Aitken 2010; Claessens et al 2012), it was not until its 2014 Global Fiscal Stability Report that the IMF took an official and public position on what is to be done about shadow banking (IMF 2014, chapter 2). The Fund’s position relies for economic expertise on its own staff, the FSB and the Fed, with academic and private sector institutions taking a backseat.

Indeed, eight out of the twelve economists cited in the sections of the report that have policy implications are IMF staff, most of them from the IMF’s Research Department. The others are two NYU economists and two lawyers from a prominent New York law firm (Clearly Gootlieb Steen Hamilton LLP) that services some of the largest banks and non-financial firms in a dozen countries. While NYU Stern professors like Viral Acharya part of the *crème de la crème* of epistemic arbitrageurs identified above, the presence of lawyers from global law firms on the IMF’s lineup of advocates of interventionism is intriguing considering the extremely marginal role of scholarly legal research in the eyes of IOs.

Unlike the FSB, the opinions of the BIS are richly footnoted and referenced, thus enabling the examination of its networks of insider and outsider experts. We looked at 89 authors and their 12 co-authors and mapped out their connections. The findings suggest that the BIS also relies on its own experts to deal with shadow banking issues, with a few co-authors based in a couple of universities, think tanks and central banks. Most of the authors are BIS staff, with the bulk of research coming from the institution’s own monetary policy, statistics and research departments (in this order). Unlike in the case of the more elitist IMF, the academic co-authors of BIS staff come from prominent (Cass, Berkeley, Peterson Institute) as well as less prominent institutions (Keynes College, Hanken School of Economics, Helsinki). The “high-and-low” status story we saw in the case of the lawyers is present here as well.

Many BIS staffers have private sector experience, mostly in financial consulting, the economics and research departments of global banks (Deutsche, Citi, Santander) and credit card companies. An even larger percentage went through the revolving door between the BIS and the international civil service track offered by international development banks (World Bank, EBRD, IADB), international think tanks (OECD, Woodrow Wilson) and the IMF, with the latter institution accounting for the largest number of arbitrageurs.

A similar percentage had academic appointments in economics departments and business schools with high and low levels of status (New South Wales, Bonn, Zagreb meets Chicago School of Business, Princeton, Wharton School, Oxford, Warwick and Instituto Empresa (Madrid)). In contrast, the majority of BIS staff writing on shadow banking comes from national central banks and ministries of finance, with a smattering of national financial regulatory commissions and head of state economic councils in the background. In contrast, IMF staffers tend to be career economists in the Fund.

## **Conclusions**

Using network analysis, this paper provides an assessment of professional networks in the shadow banking regulation debate taking place in the IMF, BIS and FSB. We find that there is overwhelming evidence that the thinking of the emerging global regulatory regime on this issue is shaped most extensively by the very staff of the international organizations that sit at its the core. With the exception of the Fed, all other actors (academic economists, legal scholars, private sector experts) have been allowed to join the debate on a very selective basis.

Given the highly legalistic character of shadow banking actors and activities, for example, we expected lawyers to have influence in these debates. They do not.

Similarly, scholars who assume a smooth flow of ideas between elite economics departments and international organizations would be puzzled to find that while the voices of such academic economists did matter for these IOs, they did only to the extent that IO staff could use academic economists' ideas to boost their own claims to expertise. Surprisingly, the academic economists that counted for IO staff came from business schools not economics departments and their role as knowledge brokers between IOs attests to their epistemic arbitrage capacity.

## Notes

1 We are generally in agreement with the FSB that “the use of the term “shadow banking” is not intended to cast a pejorative tone on this system of credit intermediation (FSB 2014: 1).

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