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Abstract

European countries have been required to formulate a national preference in relation to the EU Financial Transaction Tax. The two leading approaches to explaining how the financial sector makes its views felt in the political process – the structural power of the financial services sector based on potential disinvestment, and its instrumental power arising from direct political lobbying – fall short of providing a comprehensive account.

The missing link is how and why policy-makers might be willing to adopt the priorities of key sectors of the financial services industry. We outline how two levels of ideational power might be at work in shaping outcomes, using Ireland as a case study. We argue firstly that background systems of shared knowledge that are institutionalized in policy networks generated broad ideational convergence between the financial sector and policymakers over the priorities of industrial policy in general. Secondly, and against that backdrop, debate over specific policy choices can leave room for a wider range of disagreement and indeed political and ideational contestation. Irish policymakers proved responsive to industry interests in the case of the FTT, but not for the reasons normally given.

This work seeks to link literatures in two fields of inquiry. It poses questions for liberal intergovernmentalism in suggesting that the translation of structurally grounded material interests into national policy preferences is far from automatic, and argues that this is mediated by ideational considerations that are often under-estimated. It also contributes to our understanding of how constructivist explanations of policy outcomes work in practice, through a detailed case study of how material and ideational interests interact.

Contents

Introduction

New challenges of European integration require countries to develop a clear statement of their national interest. Fiscal and financial policy issues since the Eurozone crisis have seen a growing turn away from the hierarchical 'community method' of decision-making and toward intergovernmental practices (Bickerton, Hodson, and Puetter 2015, Jones, Kelemen, and Meunier 2016). But the concept of 'national interest' is problematic (Csehi and Puetter 2017). The way it is framed needs further analysis in these turbulent times. This paper takes as a case study the way in which one issue – proposals for a Financial Transaction Tax – has been the subject of national preference formation in a single country, Ireland. This permits us to explore in detail the mechanisms at work that explain the decision-making process, and to offer new insights into the ways in which structural and ideational explanations work.

The European Financial Transaction Tax (FTT) is an important initiative in response to the global financial crisis. Initially proposed at the height of the crisis in 2011, the EU FTT is aimed at capital markets (equities, debt securities, and derivatives), and applies only to the secondary market (where the primary market includes the first-time issuance of equities, bonds, and derivatives). The rate at which the tax is set is very low (0.1% on securities and 0.01% on derivatives), but it would be expected to yield significant sums on high-frequency transactions. The tax was designed to be collected on the basis of residence and issuance principle, requiring trading firms to pay it to the first-issuer country of the shares or derivatives.

The FTT was intended to do three things: firstly, it had a regulatory dimension since it was intended to disincentivize excessive financial sector volatility, identified as an important contributor to the crisis; secondly, it was supposed to yield a valuable revenue stream from the most profitable sectors of finance, in the wake of the expensive taxpayer bailouts and contested bail-ins of commercial banks; and thirdly, it was intended to harmonize financial taxation across member states. Member state opinion on the initiative was divided, but as the measure obtained more than the minimum number of nine member states supporting it, the plan was that it should proceed as an 'enhanced cooperation' measure. Final agreement is still pending at the time of writing.

Our analysis of the processes through which a national preference for or against the FTT comes to be formed makes a valuable contribution to analysis of European initiatives in the fields of economic integration and financial regulation.[1]

A national preference not to adopt a new coordinated tax and in opposition to regulatory initiatives might not be too surprising an outcome in a liberal market economy such as Ireland. Analysts of business power note that lobbying activity is the key to influence in domestic politics (Lindblom 1977, Dür and Mateo 2013). Much attention has recently been accorded to the ways in which the structural advantages of business interests – and especially financial interests – can be deployed without apparent agency or overt lobbying in order to exert influence (Culpepper 2010, Woll 2014b). Other possibilities have been mooted. We might anticipate that by playing a two-level mediating 'game' between debates at European level and the pressures emanating from domestic actors, the state's manoeuvring power would be strengthened (Putnam 1988). Then again, liberal intergovernmentalists would lead us to expect that networks of societal interests would actively shape what their own governments want in EU-level negotiations (Moravcsik and Schimmelfennig 2009, Moravcsik 1994).

But explaining the process leading to the framing of the 'national interest' requires a more nuanced approach. This paper directs our focus to what happens within the 'black box' of the policy process. The official Irish position on the FTT – the 'national interest' – happens to coincide with the preferences of the financial services sector. Financial services are important in the Irish economy; policy-makers report that the industry did not actively lobby on the subject of FTT.

So is this simply a case of state capture? We think not. How then can we account for these outcomes? There is a convergence between the preferences of the industry and the preferences of the official sector, but explanation of a common position on the outcome of interest (that is, support for the FTT) should not be assumed a priori to lie in the disproportionate power of the industry, or in the simple uploading of their interests

[1] This research is particularly timely in the light of Jean-Claude Juncker's ambitious vision for tax harmonization and the end of the national veto which specifically includes the FTT, and at a time when France is well disposed toward strengthening economic policy powers in a European Finance Minister (Wagstyl 2017, European Commission 2017).

and preferences to national politics. Rather, this outcome needs to be taken seriously as a puzzle that needs to be unpacked.

Our first argument is that we should not assume the automatic translation of industry preferences into public policy. Even when the industry or sectoral interests in question are structurally significant, the uploading of these preferences into national interest priorities cannot be assumed a priori. State officials believe they have a quite different interpretive framework and criteria for evaluating national interest from those of the financial sector. The state actors understand themselves to be autonomous actors. We think it is worth taking this claim seriously and exploring the implications.

Our second argument is an expansion of this: while material interests are of course relevant in accounting for the outcome of state officials' deliberations, their distinctive ideational framework precedes their interpretation of where the material interests of the state lie.

Thirdly, we argue that a nuanced analysis of how the power of ideas matters through a detailed case study can shed new light on the causal mechanisms at play in important policy choices.

The paper proceeds as follows. We consider some of the key claims made about the power of the financial sector to secure its preferred policy outcomes. We note that this is said to be exercised through structural power, through lobbying, and through the capacity to shape interpretive or ideational frameworks governing policy choices. We outline why we believe that the causal pathways of policy choice are not well or fully explained in terms of either the structural power or the lobbying influence of finance, but need to be examined in terms of the ideational frameworks at play. We distinguish between the significance of ideas at two levels: in shaping broad policy goals, and in defining policy instruments and choices.

We then set out the ideational frameworks respectively of the financial services industry, of activists, and of state officials. Our claim is that the Irish state's institutionalized policy commitments to an FDI-led growth model, which is strongly oriented toward export markets, enables a congruence of priorities on the broad direction of policy between policy-makers and industry interests. Then, in the specific case of the FTT, and notwithstanding contestation by civil society organizations, industry interests and preferences prevailed because their arguments were better attuned to the dominant ideas and discourse that inform Irish industrial policy.

Literature review

How does the financial sector exercise political influence and seek to get its priorities translated into policy? Overt clashes of preferences are only one dimension of influence, and the structural power of the financial sector has attracted much attention since the crisis (Woll 2016, 2014a, Grossman and Woll 2014, Woll 2014b, Culpepper 2015, Culpepper and Reinke 2014, Culpepper 2016, 2010, Moschella 2017, Epstein 2017). The structural significance of finance as a gatekeeper to investment accords it a privileged position in policy formation. Governments may be highly sensitized to finance's priorities and receptive to their lobbying activity, a point long noted by Marxist and liberal pluralist authors alike (Lindblom 1977, Przeworski and Wallerstein 1988). Culpepper and others have found that business interests prefer to exercise 'quiet power' where possible, exercising influence below the level of visible political contestation. Indeed, 'inaction' can be a potent instrument in the case of bank bailouts: banks that are systemically important can exercise influence over government decisions by resisting industry-only resolution (Woll 2014b). But the particular conditions under which the preferences of finance might be taken up by government, outside the coercive circumstances of systemic bank insolvency, may not be so clear. And where issues are overtly politicized and enter into the public domain (as we argue was the case in relation to the FTT), their salience may make them susceptible to being influenced by other democratically mobilized interests and preferences such that finance may find it more difficult to prevail.

These two dimensions of power and influence, based on structural advantage on the one hand and lobbying influence on the other, roughly correspond to two of Lukes's 'dimensions' of power (Lukes 2004). As he notes though, 'power is at its most effective when least observable'. It signifies a greater power on the part of the actors if they can not only remove an issue from public discussion and hence insulate it from confrontation, but if the exercise of this power is also closely intertwined with the normal way in which existing institutions operate. This third dimension of power points toward a means of exercising influence that is both institutionally routinized and that is based on an ideational interpretation of how the world works that shapes the expectations of the various actors. Power of this sort may be exercised through holding a monopoly on relevant knowledge, as in the case of the opaque practices of the shadow banking sector or the development of complex investment products (Young and Pagliari 2017, Ban and Gabor 2016, Ban, Seabrooke, and Freitas 2016, Ban and Gabor 2017). We are interested in understanding the influence of the financial sector over policy on the European FTT though, and this does not, on the whole, involve specialist or insider knowledge. So we look to the possibility that what may be involved is power exercised in the form of a general framework of ideas.

Carstensen and Schmidt offer a useful set of distinctions in thinking abut power and ideas. Ideational power is viewed as 'the capacity of actors (whether individual or collective) to influence actors' normative and cognitive beliefs through the use of ideational elements' (Carstensen and Schmidt 2016). Power 'over' and 'through' ideas may be understood as 'the direct use of ideas to influence other actors' – the power of persuasion and lobbying power. But in addition, they identify power 'in' ideas which refers to 'the background ideational processes – constituted by systems of knowledge, discursive practices and institutional setups – that in important ways affect which ideas enjoy authority at the expense of others' (Carstensen and Schmidt 2016, p.329). The ability to establish their perspective as 'common knowledge' strengthens the probability of agreement on policy options and outcomes. Where ideas and preferences are overtly opposed to one another, establishing a common frame of reference can be a powerful means of building bridges between contending interests (Culpepper 2008). A corollary is that the capacity to frame alternatives as 'marginal', 'radical', and 'implausible' can strengthen actors' ability to set the agenda and to dictate the topics that are given serious consideration. Power over ideas, in other words, consists of the ability to crowd out the alternative ideas and perhaps even to remove them from public debate.

Our study of the outcome of the formation of a national preference in relation to the FTT in European policy debate acknowledges the relevance of all three dimensions of power. But what is lacking, we believe, is a proper understanding of the causal mechanisms through which the preferences of the financial sector may come to prevail in the policy process itself.

The financial sector in Ireland may be assumed to be able to exercise considerable 'structural' power because of its significance for the Irish economy. Looking at the contribution of financial services to exports, jobs, and gross value added in the economy, Appendix 1 shows that Ireland's financial services sector is in the top three in Europe (along with the Netherlands and the UK, and if we exclude the unusual case of Luxembourg). Appendix 2 shows that Ireland has an exceptionally large number of managed funds or hedge funds, second only to the UK. There appears to be a strong correlation between the presence of a large funds sector in an economy and that country's opposition to the FTT.

A varieties of capitalism perspective would also suggest that Ireland and the UK, as liberal market economies, would oppose further regulation initiated at the European level (Quaglia 2017). The financial sector may be assumed to command structural power based on agency, specifically the exit possibility, which is particularly relevant when considering the introduction of new tax or regulatory mechanisms (Culpepper and Reinke 2014). However, the causes and consequences of potential exit options are interpreted within a particular ideational framework. Culpepper defines structural power as 'the ways in which large companies and capital holders – in practice very often the same thing – gain influence over politics without necessarily trying to, because of the way they are built into the process of economic growth' (Culpepper 2015). In this framework, the availability of exit options (disinvestment) and the dependence of the policymakers on capital holders are the main components of structural power (Culpepper and Reinke 2014).

But why would policy-makers see things like this? The causal logic that runs from the size of the funds sector to the outcome of public policy is often framed within an economics perspective, focusing on costs and benefits in terms of business outcomes such as the amount of revenue that can be generated, the impact on financial volatility, and potential disinvestment (Schäfer 2012, Schulmeister 2012). These debates are themselves generated within a framework that normalizes a particular set of market-based ideas, without asking how actors' priorities are constructed and why some ideas about possible outcomes come to prevail in the debate.

An explanation based on a direct causal chain from structural power and positional advantage to policy outcome is problematic. It excludes the agency of the financial services and of policy actors alike. In any case, a significant financial services sector is a very recent phenomenon in the Irish economy and one that is itself the product of strong political backing. Why, after all, has Ireland such an exceptionally large funds industry in the first place? The very existence of an important financial services industry in Ireland is itself the outcome of a political commitment to the process of cultivating the sector over a sustained period of time. Invoking a structural explanation simply pushes the explanatory puzzle one step back, demanding that we take state strategy more seriously.

A second strand of explanation would contend that where states do not support the adoption of a Financial Transaction Tax, this may be evidence of successful political lobbying on the part of the financial industry. The structural power of the financial sector might lead us to anticipate that it will have veto-player powers, not least by keeping the issue off the political agenda altogether. However, keeping an EU initiative completely below the threshold of political visibility is difficult. Discussion of the issue in European as well as national fora is likely to open up political space for partisan contestation and civil society mobilization, so the financial sector may not be able to avoid entering the political fray in some way. And in fact there was a lot of public debate about the FTT, and coordinated mobilization to lobby politicians to adopt it. At the EU level too, pro-FTT activists worked hard to promote the tax, while financial industry lobbyists vigorously opposed it (Kalaitzake 2017). If the 'official' stance in Ireland coincides with industry preferences, this might be viewed as the product of successful lobbying by industry interests. Somehow, the lobbying efforts by civil society organizations such as trade unions and charities failed to get the FTT adopted. How did this happen?

The Irish case is particularly interesting since our interviews reveal that the government formed its position without believing it had been subject to lobbying by financial interests. We must then ask why Irish policymakers formed an opinion congruent with industry interests, even though adoption of the FTT could potentially reduce volatility, increase revenue, and garner votes from public in the post-crisis environment. The biggest risk for state actors is perhaps the possibility of industry's exercise of power 'in' ideas – that is, the capacity to manage 'the authority certain ideas enjoy in structuring thought at the expense of other ideas' (Carstensen and Schmidt 2016, p.329). In other words, public officials may become co-opted into industry's perspectives and priorities, simply captured by industry interests. While this possibility cannot be excluded a priori, there is still an explanatory gap where the actual process of ideational influence plays out. This needs to be examined further.

We therefore think it important to distinguish between the ideational framework of the policy-makers themselves, and the ideational framework of the industry interests. We argue that the formation of a national preference on the EU FTT comes from a convergence of these ideational frameworks, and that a simple story about state capture is unable to account for how and why this might happen.

Research design

We recognize that the structure of the economy shapes interests in distinctive ways and that interest mobilization and lobbying plays a role in shaping outcomes. But we believe another element of the causal pathway has been overlooked to date. All of these pressures are brought to bear upon the key policy actors, that is, politicians, civil servants, and senior state officials, but their role tends to be systematically overlooked. Opening the 'black box' of decision-making requires that we examine the discursive or ideational framework guiding the policy process itself – and specifically, the framework of interpretation that shapes the policy initiatives of the state actors. In the Irish case, we need to ask how and under what conditions policy-makers' perceptions of the national interest, and ideas about how best to support it, might be systematically receptive to industry interests.

Our research puzzle is to figure out how and why Irish decision-makers' preferences converged with those of the financial services industry in the case of support for the EU FTT. Our contention is that the process of national preference formation takes place within a sophisticated institutional framework built up to support economic and industrial development – a shared network of 'systems of knowledge, discursive practices and institutional setups' (Carstensen and Schmidt 2016, p.329). This is both the product of a set of ideas and preferences in official policy circles about how best to facilitate economic growth, and the setting for transmitting and routinizing these priorities in new circumstances. But while the institutional framework includes a lot of consultative mechanisms, the arenas of official policy framing and political prioritization are institutionally separate and the key political actors are keen to defend their own ideational and decision-making independence.

Empirically, we argue that the Irish growth strategy, which has been strongly based for several decades on attracting Foreign Direct Investment (FDI), accords the financial services sector a good deal of significance in official policy priorities. There is considerable ideational convergence in the political system about the centrality of FDI for export-led growth (Barry 1999, Ó Riain 2004). The Irish official view is embedded in long-standing beliefs and norms underpinning the Irish growth model. Convergence between the ideational frameworks of state actors and key sectors of the financial services industry provides a bridge between sectoral and national preference-formation. Structural and lobbying explanations of financial power must be complemented by an institutionally-grounded ideational analysis of the sort we propose here, in order to explore how key state actors collate and prioritize the diverse considerations with which they are faced.

The implication of this argument is that we need to distinguish between two levels of the exercise of ideational power. Firstly, the deeply institutionalized, cross-party commitment to a growth strategy based on FDI enables convergence on general industrial policy preferences between the state and the financial sector (and indeed with business interests more generally). This may be understood in terms of Carstensen and Schmidt's 'power in ideas', that is, the 'systems of knowledge, discursive practices and institutional setups' that shape common perspectives. Secondly, as a result of this historical convergence, there may be but need not be convergence in preferences regarding specific policies such as the FTT – even if the interpretations or beliefs about that specific policy may be different. This is where the industry's 'power over ideas' comes into play.

The distinction we are making is similar to Peter Hall's unpacking of the concept of policy paradigms. These is to be understood as involving three levels: a broad framework of policy goals (in this case, facilitating FDI-led growth); techniques or instruments of policy that are used in order to attain these goals (for example, tax incentives, reputable regulatory environment, administrative efficiency, or possibly an FTT); and levels or settings of these policy instruments (such as rates of tax, provisions for offsetting various items against tax liability, flexibility in the interpretation Finance

Acts, regulatory conditionality) (Hall 1993). In our discussion, we are drawing upon the first two of these conceptions.

We argue that the historical institutional context in Ireland ensured an ideational convergence between the financial interests and interpretations and preferences of policymakers at the ideological or paradigmatic level. This set the framework for policy development in relation to the EU FTT. But it did not necessarily pre-determine the outcome on this specific issue.

Our focus on Ireland as a case study lets us explore the preferences of different actors and interactions between them in rich empirical detail in order to gain insight into causal processes that may have wider application across a larger set of units (Gerring 2004). We conducted qualitative interviews with twenty key policymakers, industry representatives, and civil society actors between May and July 2017. This enables us to map out the respective positions and preferences of the actors and to explore the sources of the ideational convergence we discerned between policymakers and the financial sector in Irish preference formation. Appendix 3 indicates the affiliation of the seventeen respondents cited in this paper.

In the following sections, we discuss the empirical working out of the causal mechanism we have outlined. Firstly, we profile the industrial policy strategy that underpins a general convergence of priorities between state and financial sector actors. We then show why state officials and industry actors came to a common view about the FTT that which was at variance with the views of civil society activists. But we also show that the process of reasoning was different in each case, and that convergence is not synonymous with state capture.

Institutionalized policy ideas

What we are concerned to understand is the framework of ideas and preferences that informs the thinking of state actors (politicians and public servants) such that, even though they are structurally distinct from the financial services industry, they converge on a strongly overlapping perspective with respect to what the 'national interest' looks like, specifically in the case of the FTT. But 'national interest' is not just the product of vectors of power and influence; it is a highly socially constructed idea that is grounded in 'ontological institutionalism' (Hay 2016). The deep-seated objectives of industrial policy in Ireland were highly favourable to export-led growth. The state has pursued a consistent policy of supporting the development of financial services for some thirty years. These priorities are strongly institutionalized in the policy process.

In Ireland, the key to understanding the financial services industry is to see it in the context of the long-standing Irish state project of building economic development through attracting foreign direct investment and maintaining a low corporation tax rate (Barry 2007, 2012/13). At the centre of this strategy is a remarkable state institution, the Industrial Development Authority (IDA) wielding an enormous amount of 'soft power'. Its role is highly activist and interventionist, targeting and cultivating potential investors, arranging local site visits, facilitating access to information, helping investors acquire real estate, source trained staff, and enabling networks with other state institutions (Ó Riain 2014, 2004, Breznitz 2012).

In the mid-1980s, the IDA moved into a new phase of activism, targeting the emergent industrial sectors of information and communications technology, pharmaceuticals, and medical devices. The pay-off in jobs and exports was impressive, and it formed the basis of the export-led phase of the Celtic Tiger in super-normal, catch-up growth during the 1990s (MacSharry and White 2000). But there was nothing in the mid-1980s to predict that financial services would become one of the IDA's biggest success stories. Ireland had long had a very conservative commercial banking sector, and even after financial deregulation in the UK, competition in the lending market was slow to develop. Financial intermediation activities outside core retail banking had a very weak presence.

The Irish financial services industry was the result of a deliberate political project to introduce a new area of activity into the Irish economy. In the mid-1980s, financier Dermot Desmond and a group of business people conceived of a scheme that would extend the industrial development tax incentives to attract inward financial investment. The deliberate construction of an export-driven growth model leads Peter Hall to liken contemporary Ireland to the post-communist eastern European economies in respect of its economic performance (Hall 2017). But there are differences too. These economies' industrial sectors are tied into supply chains that are mostly German and necessarily of quite recent origin. The origins of Ireland's export-oriented industrial sector go back to the 1950s. While heavily dependent on the US in particular, it has developed stronger domestic linkages and spinoffs, and has induced a process of 'institutional co-evolution' that facilitates flexible adaptation of development policy over time (Barry 2007). Indeed, it is precisely this capacity for adaptation that is credited with Ireland's dramatic recovery profile since existing the loan programme in 2013 (Regan and Brazys 2017, Brazys and Regan 2017).

The International Financial Services Centre (IFSC), and the financial services industry more generally, was a political project from the outset, driven by the Department of the Taoiseach, the Department of Finance, the Industrial Development Authority, and (initially) the Central Bank. An industry representative notes that the creation of the IFSC, an umbrella public-private-partnership vehicle, was motivated by nationalist ambitions to bring about economic recovery against the bleak backdrop of very high unemployment and emigration during the 1980s. The explicit aim was to build job-creation capacity in a totally new area of activity, in line with Fianna Fail's 1987 election manifesto (interview 7, 12 June 2017). The IFSC would be a vehicle to regenerate the run-down city-centre Docklands area and to create a source of new employment (though this was not aimed at the existing low-skilled residents of the area), and to do so in a manner that prioritized internationally traded financial services[2] (Interview 2, 15 June 2017; interview 5, 20 June 2017).

Starting with little more than a modestly-sized domestic high-street banking sector that employed not more than a couple of thousand people, over a period of some thirty years Ireland developed its current highly lucrative financial services sector, employing up to 40,000 people (in a workforce of about two million).

The importance of foreign direct investment FDI in the Irish growth model, and the specific place for the financial sector within this model, privileges its concerns in the eyes of government and in the priorities of the IDA. The extent of political consensus around the build-up of Ireland's export-led growth model is the source of the

[2] The scheme was initially confined to firms that accepted tight terms and conditions to locate in a 12-acre riverside site. The IFSC quickly doubled its footprint with the inflow of new firms. The introduction in 2003 of a single corporation tax rate of 12.5 per cent for most activities, as mandated by EU competition rules, meant that the FDI-led development of the financial services sector no longer needed to be a location-specific special investment area in order to benefit from an attractive tax regime. The same schemes could therefore in principle enable new job creation in a range of financial services activities that could be located in provincial towns across the country. See (MacSharry and White 2000).

convergence between the government policies and industry interests. Alternating governments exhibit no fundamental partisan differences on this development strategy. The state institutions (especially the IDA) and the public bureaucracy therefore encounter no ideational or ideological challenge to their prevailing conceptions stemming from changes in ministerial portfolios. The first element of Hall's account of a policy paradigm, that is, the broad goals of the policy itself, is virtually unchallenged.

The Irish state has a systematic and sustained commitment to an export-led growth strategy and strong commitment to cultivating a financial services sector. These policy priorities are further institutionalized through the consultative forum that brings together representatives of the industry and of the state sector. The International Financial Services (IFS) Industry Advisory Committee (IAC), often referred to as the Financial Services Industry Group, is a structured consultative body through which industry priorities are relayed to policy-makers, similar to industry corporatist bodies in other countries including the UK. It was known until 2015 as the International Financial Services Centre (IFSC) Clearing House. The IAC High-Level Implementation Group is made up of twelve members: politicians and senior civil servants from the Departments of Finance, Public Expenditure and Reform, Industry, and the Revenue Commissioners; the IDA; representatives from various branches of the financial services industry; and the main accountancy and tax advisory firms (Irish Financial Services 2017).

The IAC is the locus of a direct flow of information between the financial industry and state officials. However, industry preferences, even when expressed through privileged channels of access, are not necessarily decisive in shaping government choices. The transmission of preferences does not necessarily result in their translation into policy.[3] So how large a role does the IAC play in Irish financial services policy?

[3] For example, the UK's Financial Services Trade and Investment Board (FSTIB), which was created in 2013 and which brings together HM Treasury, UKTI, FCO, BIS, and TheCityUK, has the task of identifying 'trade and investment priorities and to support UK based firms in pursuing these vigorously across the globe'. But the City failed to exercise what many had supposed would be a readily-available veto power over the gathering government momentum during 2015 and 2016 toward leaving the EC (Lavery, Quaglia, and Dannreuther 2017, James and Quaglia 2017).

The 'structural' weight of the sector is considerable: the financial services sector is a significant employer and a major contributor to export earnings. They contribute very little to corporation tax: most investment funds are tax-exempt. Their contribution to economic growth is heavily concentrated in the professional support services they require, principally in legal and accountancy activities.[4]

The insider influence of the financial services group and its opaque dealings with government have long been a matter of public comment and criticism, especially in light of controversy over the role of law and accountancy firms in facilitating aggressive tax planning. For example, as the Celtic Tiger was gathering pace and the first phase of financial services expansion was gathering momentum, Section 110 of the 1997 Finance Act greatly extended the scope for legally avoiding corporation tax by allowing investment funds and Special Purpose Vehicles to shelter behind provisions designed for charities. The boundary between information exchange and lobbying in this context is not very clear.

A former government minister (referring to the IAC and using its older name Clearing House Group) was quite firm in stating that: 'I wouldn't attach too much significance to the Clearing House Group (as a pressure group). It's more about information sharing… I don't think I've ever been approached directly by any financial firm, or by the Clearing

[4] The sector has growth remarkably quickly since 2010. The industry group International Finance Services Ireland (IFSI) states that the country has '…particular strengths in Hedge Funds (40% of the world's Hedge Funds are serviced in Ireland)' (Irish Financial Services 2017). The value of assets invested via Irish domiciled money market and investment funds was €2.7 trillion in the fourth quarter of 2015, which was 12.5 times the entire Irish GDP (IMF 2016). The total value of assets in the financial sector is €4,597 trillion, €2,858 trillion of which is shadow banking (Central Statistics Office 2016). The total European share of managed investment funds is estimated at some €14 trillion: Ireland's share of these is about €2 trillion, or 15% (interview 8, 12 June). As the IMF puts it: 'Ireland is now the domicile of choice for more money market and hedge fund assets than any other country in the euro area' (IMF 2016). Most of this is now regulated by the authorities in Ireland or elsewhere, and the Alternative Investment Funds Managers Directive (AIFMD) 2011, among other EU initiatives, has extended the scope of financial regulation into the shadow banking sector. But the international reach of finance, and the complexity of regulatory jurisdictions, demand much more active monitoring and international coordination than national oversight agencies can normally muster (Griffin and Brennan 2016).

House either' (Interview 12, 29 June 2017)[5]. Public officials, in interview, insist that the lobbying role of the industry within the IAC is limited, and that the purpose of the meetings is to 'identify problems', engage in trouble-shooting, and find mutually acceptable solutions that are not necessarily the ones the industry wanted but that are ones the official actors are willing to deliver. Several interviewees from the state's side said that financial services interests sometimes looked for special privileges on regulatory waivers or tax exemptions to solver specific problems in their sector. Public policy rarely accommodated them, according to our official informants, because the reputational value of tax transparency and an effective regulatory framework to the state was its main selling point.[6]

Government officials – political and bureaucratic alike – when evaluating new policy proposals such as the EU FTT in terms of overall economic strategy, are primed to be sensitive to industry interests by their prior ideational orientation, and this gives the industry a leading role in shaping the interpretation of new policy.[7] Ireland's International Financial Services Sector 2020 Strategy document, prepared by Taoiseach, Minister for Social Protection, Minister for Jobs, Enterprise & Innovation, and Minister of State for International Banking at the Department of Finance, affirms this point. The document states that 'our vision is for Ireland to be the recognised global location of choice for specialist international financial services…' (Department of Finance 2017). The first objective of the five strategic priorities that the document sets is to 'promote Ireland as an IFS location'.

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[5] As we shall see later though, lobbying by private investment firms and others was more common and more extensive than this suggests.

[6] It should be noted that the shift toward prioritizing a strong and transparent tax and regulatory framework as a reputational advantage is a legacy of the crisisThe hazards of light-touch regulation were brought home very clearly by the crisis, and root-and-branch reform of the Central Bank was a top Troika priority. But the scale of shadow banking appears to be significantly under-reported and the rapid development of a global Special Purpose Vehicle (SPV) hub in Dublin may conceal many hazards (Storey 2017a, Stewart and Doyle 2017) The Irish tax code still features a whole range of measures that enable creative tax-avoidance. The 'Big Four' accountancy firms play a significant role in designing and advising on these (Storey 2017b).

[7] We have no evidence of lobbying specifically in relation to the FTT. But the funds industry was very active in lobbying about tax arrangements governing the state's fire-sale of property and real-estate held by the National Asset Management Agency (NAMA) in the wake of the crisis (McDonald 2017).

Is the institutionalized Irish policy commitment to development the financial services sector tantamount to state capture? If the industry is so closely embedded in consultative networks, is this simply a transmission belt for industry interests into the heart of public policy?

Public officials (politicians, civil servants, and state agency officials) vehemently deny that this is so. For example, a senior IDA official insists that 'the government formed its opinion independent of the industry' (Interview 5, 20 June 2017). A former government minister makes the same point as follows:

> Policy-making is all from the political side. We'll listen to what the IDA and others tell us before the Budget. If it's a good idea, it will find its way into policy. But Finance and the Taoiseach's Office is where all the important decisions are made. (Interview 12, 29 June 2017).

We can point to a 'hoop test' indication that official Ireland is perfectly capable of opposing the interests and preferences of the financial services sector under certain conditions (Bennett 2010, Collier 2011). Section 110 of the Taxes Consolidation Act 1997 supported tax reliefs for structured finance and securitization purposes. The provisions of this Section had come to be used to shield a much wider range of funds activities from full corporation tax liability on their profits.[8] In the 2016 Finance Act, the scope of Section 110 tax exemptions was narrowed, with the effect that 'vulture fund' property investors were now typically excluded. The Finance Act 2016 introduced a new withholding tax of 20% in respect of investments in Irish real estate funds, which distinguishes these from other funds that are 'tax neutral' (Chartered Accountants Ireland 2017, O'Donovan 2016).

The context of the government initiative was growing public discontent over the increasing and very public presence of foreign-owned investment funds in the Irish property market, in a suddenly highly globalized housing finance regime (Norris 2016,

[8] Twenty-four subsidiaries operating under the Section 110 mechanism 'paid corporation tax of just €18,943, even though they manage distressed loans and debt amounting to €18.9 billion. The figures are approximate and based on an analysis of publicly available accounts submitted to the Companies Registration Office (CRO). Most of the accounts cover the calendar year 2014 and 2015'. Tax foregone is estimated at 'between €250 and €350 million per year since 2014'. (McDonald 2017, pp.40-41.)

Norris and Byrne 2017).[9] Chunks of the banks' distressed mortgage portfolios, now held by the governments' 'bad bank' NAMA, were sold to international investors.[10] The tax advantages they could avail of were highly controversial in the context of an extreme housing crisis. Evictions with the purpose of rent increases, and repossession of family properties, made the issue very salient (Storey 2016). The investment companies paid extraordinarily low taxes on their activities by availing of existing tax concessions and by engaging in sophisticated financial engineering. In a context in which tenancy rights are weak and the state was unwilling to bolster them significantly, the Minister for Finance was under considerable pressure to do something visible on the tax front.

Industry interests opposed and resisted the proposals. An analysis of the Lobbying Register showed that major foreign-owned investment firms (more likely than Irish-owned firms to be affected by the proposed changes) and representatives of the funds industry (such as the Irish Funds Industry Association, and the Managed Funds Association) held numerous meetings with officials from the Department of Finance, some of which were attended by Minister for Finance Michael Noonan. Records of the meetings indicate that proposed tax changes appear frequently in the relevant documentation (McDonald 2017, pp.26-32). For example, the US-based firm alternative investment fund Oaktree Capital Management 'expressed their concerns regarding changes related to the funds industry that were mooted for the 2016 Finance Act and the negative effect it would have on their business in Ireland', and the points were reiterated in numerous other instances that are on the record (McDonald 2017, p.31). A TD (that is, MP) who had been pressing for the amendment notes there was also 'quite a lot of pushback' from the industry through public debate and newspaper articles (Interview 17, 26 July 2017). Industry interests tried to mobilize the 'power of ideas' to counter potential taxation measures by arguing that these would harm business activity

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[9] Private investment firms are not regulated by the Irish Central Band. But 'media reports suggest that since 2014, vulture funds have bought close to 90,000 mortgages from banks and NAMA, and tens of billions of euro in distressed property debt and business loans... They have also bought overdrafts, personal guarantees and credit card debt' (McDonald 2017, p.43).

[10] The presence of foreign-owned private equity firms was enabled by three measures: real Estate Investment Trusts (REIT) in 2013; Qualifying Investor Funds (QIF) to facilitate loan products that are not constrained by leveraging or borrowing; and standalone Special Purpose Vehicles (SPV), or Section 110 Vehicles, which govern the taxation of securitzation vehicles (McDonald 2017, p.21).

The conflict over the taxation of property funds reveal a genuine capacity on the part of government and officials to take a position that is opposed to that of the financial services sector. As Culpepper and others have led us to expect, industry preferences did not prevail when the issue became politically salient, the subject of adverse press coverage, and a magnet for electoral opprobrium (Culpepper 2010).

The contestation of ideas over FTT: industry views

What, then, did the contest of ideas and preferences look like when it came to the FTT? We explore this firstly by setting out what the industry view was and how they justified their concerns, then unpacking the state officials' thinking on the matter, and then considering how the pro-FTT lobbyists fared.

Unsurprisingly, industry representatives we interviewed took a strongly pro-market view that saw the FTT as nothing but a hindrance on their activities. A vibrant secondary market and unfettered trade in derivatives is defended as a valuable lubricant to economic activity. A senior investment fund manager argued that 'speculation is desirable in the market… Speculators stabilize the market through derivatives' (Interview 7, 12 June 2017). A top derivatives trader argued that only through tolerating a very high volume of transactions in the market could 'correct' prices are achieved. Without this, the interviewee claimed that less frequent trading activity would make it harder for the market to signal the 'correct price', and could potentially cause the perverse effect of actually increasing volatility (interview 1, 1 June 2017). 'Correct price' arguments of course assume that a correct price already exists, only waiting to be discovered by the market. Markets might better be understood as 'making' rather than discovering prices. The idea that rational actors make rational decisions in the market that lead to efficient outcomes is a well-known one. On the opposite side, however, there is evidence that hedge funds such as Bear Stearns Asset Management collapsed precisely on account of their inability to accurately calculate the risks associated with derivatives and subprime exposure during the crisis (Partnoy 2007). Even before the crisis, the opacity and uncertainty of the derivatives market was well documented (Mügge 2013a). It is precisely the inherent vulnerability of markets to non-rational factors such as cognitive short-cuts and 'irrational exuberance' that lies behind the creation of speculative bubbles (Brazys and Hardiman 2015, Mügge 2013b).

It is of course unsurprising that the industry representatives and advisors would argue in favour of market competition. They are 'ideational agents', promoting and disseminating ideas consistent with their interests and preferences (Schmidt and Thatcher 2013, Tsingou 2015).

The key argument that industry thought would resonate with policy-makers is that if the EU FTT were to be introduced, financial services firm would relocate to avoid undesirable taxation. An industry representative agrees that there are complex and multiple reasons why funds might choose to locate in a country but adds that 'if, due to an additional tax, the business becomes less profitable here, I might suddenly get more mobile' (Interview 13, 19 July 2017).

The contestation of ideas over FTT: the activists' view

Business interests prefer to exercise 'quiet power' where possible, and the politicization of an issue gives it electoral salience that undermines the advantages industry might otherwise enjoy. To what degree, then, were other interests able to counter the influence of the financial services industry in government thinking about what the Irish growth model required or could tolerate?

The main activists and lobbyists in favour of an FTT in Ireland since 2010 are the Irish Congress of Trade Unions (ICTU), leftist philanthropic think-tanks, and social justice civil society organizations, under the umbrella banner of 'Claiming Our Future' (Claiming Our Future 2017). The FTT campaign adopted the British slogan of a 'Robin Hood tax' (Robin Hood Tax 2017). Financial sector taxation and regulation became a highly salient issue in political discourse in the aftermath of the global financial crisis. The persistence of loan programmes, the risks of a sovereign-bank 'doom loop', and the ongoing malaise of the Eurozone, all contrived to keep the issue of how to 'tame' the banks very much in the public eye. According to a Eurobarometer survey conducted in March 2012, there was quite strong support for an EU FTT in Ireland. 21 per cent of respondents were 'totally in favour' of a tax on financial transactions, while 26 per cent were' fairly in favour'. 12 per cent on the other hand said they were 'fairly opposed' to such tax, and 21 per cent were 'totally opposed' (Eurobarometer 2012). The remaining 20 per cent had no opinion on the subject. Among those who favoured the tax, the most popular reason for support was to 'make financial players contribute to the costs of the crisis' (59 per cent), 'followed by 'combat excessive speculation and so help future crisis' (25 per cent).

The Robin Hood Tax Ireland campaign argues that FTT would have three main benefits: it would increase revenue for the government, create jobs by reinvesting the money raised, and reduce the number and size of risky and high-frequency transactions. They are sceptical about the claim that FTT would lead to relocation of financial firms to London. Due to the residency principle, it would be difficult to avoid the reach of the FTT, so it would be self-defeating for most companies to relocate. Activists argue that financial interests would be more willing to pay the tax charges than to relocate (Interview 9, 9 June 2017). They are sceptical about the risk of damaging the functioning of the industry, disincentivizing investment, and causing exodus. They take a Europe-wide view of the need to constrain fast-moving traded financial products; they prioritize measures that would dampen the casino-like features of modern finance (Crowley 2016). They argue that the revenue generated by such a tax might be used for reducing what are held to be unjust levels of inequality domestically, and perhaps also for supporting global equality-enhancing priorities such as providing development aid to less-developed countries and slowing down climate change (Interview 9, 9 June 2017).

The Irish Congress of Trade Unions (ICTU) holds that the claims made about the main potential adverse consequence of the EU FTT—the exodus of financial capital and relocation of firms—are of questionable credibility (Irish Congress of Trade Unions 2012). A report published by the trade union research body NERI argues that large-scale exodus is unlikely, noting that multiple changes to the US tax code on financial transactions over the last decades did not cause any significant outward movement of capital (Collins 2016). ICTU (2012) agrees with the European Commission that the VAT exemption on the financial sector generates unfair competition. Congress also agrees with the Commission that the cost of bailouts should be shared by the financial sector in general, and that the implicit or explicit assumption of 'too big to fail' might still lead to excessive and irrational risk-taking across many areas of the financial services industry. This is consistent with the view of the IMF in its recommendation to the G20 on taxing the financial sector, where it was argued that even if the fiscal contribution of the tax is small, the fiscal costs of bailouts are too large, and avoiding similar excessive risk-taking by the financial institutions is a desirable policy objective (IMF 2010). ICTU also stresses the importance of regulation in the sector and preventing 'irresponsible risk' (Irish Congress of Trade Unions 2012). The Congress report concludes by arguing that government opposition to FTT undermines Ireland's foreign policy goal of being a strong partner in the EU.

They campaign submitted regular pre-Budget submissions reiterating their case in favour of the FTT. But neither the empirical analysis nor the normative arguments carried weight with the government. Indeed, they rarely gained access to government politicians, and were not represented in the consultative networks that link financial services to state actors. Moreover, the activists were much less successful than in other European countries in raising the public salience of the issue and making it matter to voters (Interview 17, 26 July 2017). While support levels for the FTT in Ireland seem quite impressive, they are well below European averages. Kalaitzake shows that FTT commands widespread popular support among voters right across the EU in the wake of the financial crisis (Kalaitzake 2017). Overall, 66 per cent of the total European population expressed support for a European-wide FTT, compared with less than half in Ireland (Eurobarometer 2012). Despite lobbying efforts from the trade unions, NGOs and other civil societal organisations, we have seen that government was far more responsive to industry priorities than to other social interests. We explain the receptiveness of the Irish policymakers to the industry point of view through the power in ideas institutionalized at the policymaking level in Ireland and the ideational convergence between the policymakers and the industry, which crowded out alternative assessments of the potential impact of the FTT.

The perceived potential for exit accords significant power to financial actors (Culpepper and Reinke 2014). However, this process should not be seen as automatic. It is mediated by the policymakers' own deep ideational framework on the one hand, and their assessment of the merits of the particular argument made on this issue on the other.

We have shown that there official policy in Ireland supports a framework of ideas and deep policy goals that favours exports and that supports the financial services sector. But what of the particular policy priorities here, and what of the settings of this policy? How realistic was the threat of disinvestment and, more to the point, how realistic did policy-makers believe it to be, and why?

The contestation of ideas over FTT: the official view

The framework of reference of the public officials whom we interviewed was not the same as that of the industry representatives. Public officials typically recognized that an FTT might be both ethically desirable and beneficial for the stability of the international economy. Their views about the undesirability of the FTT were prudential and precautionary. A former Department of Finance official endorses this perspective: 'We will not be against reducing volatility. We care about jobs but also the overall effect on the economy' (Interview 3, 15 June 2017). Similarly, an official in the Ministry of Finance states that: 'There was a lot of political will post-crisis [to introduce an FTT]. People were angry about what happened. Brussels gave a banner to go home and say what they are doing about it [the financial sector]' (Interview 8, 15 June 2017). An official in the IDA gave a pragmatic assessment, believed to be held very generally among public officials, that: 'We are not against the concept of FTT. But we would want it in a global scale. If not done in a global scale, there is no point to it [because of potential dislocation]' (Interview 6, 20 June 2017)

It is noteworthy that the Irish government proceeded cautiously on proposals for an FTT: it did not take a strong a priori position. The Minister of Finance at the time, Michael Noonan, postponed any decisions until after an Oireachtas (parliamentary) debate in 2012. In the end, Ireland was not one of the eleven countries that committed to enhanced cooperation on the FTT in 2013. The official Irish position was prudential, based on calculations of potential revenue and on the risk of Ireland finding itself on the wrong side of capital flight based on tax competition, in the absence of a more broadly-based international coalition supporting the FTT. The government waited to see how widely it would be adopted elsewhere:

> We didn't oppose (the FTT) in Ireland on principle. We wanted to see what the competitive implications would be. We would have no problem with it if it had international support – ideally not just from the EU, because the US, Canada, Singapore, other countries were important too. The next best would have been an EU-wide involvement… But the UK came out against it… We decided we couldn't move unless London moved. (Interview 12, 29 June 2017).

With respect to the question of why the UK weighed so heavily on the government's consideration, an industry representative states that many of the Irish-domiciled firms in fact operate from London, with their support services located in Ireland (Interview 14, 25 July 2017). The government was concerned that it would be easy for those companies to relocate to London, should the UK not sign up for the FTT.

The potential adverse impact of the FTT quickly became the focus of attention in Ireland. In April 2012, the government commissioned an impact assessment report from the Central Bank. This report suggested that the additional tax revenue generated by the European FTT would be modest, since it would involve abolishing the existing stamp duty (set at 1%), and would narrow the base on which the existing stamp duty is levied (Central Bank of Ireland and ESRI 2012). Industrial policy officials, both in the public service and in state agencies, all expressed reservations about using a tax instrument to secure regulatory objectives. If the principal aim was to reduce volatility, they held, then tax policy was not the way to do it, and strengthening regulatory oversight would be both more desirable. But quite how this could be accomplished was left unspecified.

The chief argument, though, was the one about capital flight, and the Central Bank report concluded in 2012 that there was no decisive evidence that relocation would be a realistic threat in the Irish case. Relatively few of the hedge funds registered in Ireland engage in direct trading activities in the Irish market, and so would be unaffected by the tax, because while it is to be levied on products wherever they are traded worldwide, the revenues are to be returned to the country of issuance (Interview 1, 1 June 2017). Most of the financial services sector activity in Ireland involves servicing managed funds, not engaging in high-frequency trading activity. An official who had worked at the Department of Finance in 2013 notes that 'smaller member states like Ireland would not get much out of (the FTT, compared with) France or Germany' (Interview 3, 15 June 2017). And an adviser with a prominent accountancy firm said that 'Ireland with a smaller economy and smaller capital market would not benefit from it [FTT] as much' (Interview 2, Dublin, 15 June 2017). Shares and their derivatives that are traded in global markets originate in large-scale trading in products issued within the bigger economies. In other words Ireland, with relative few trades originating in Irish-based issuance, would not generate as much revenue as the bigger and more 'core' economies might. Exit from Ireland would not mean that the funds could avoid FTT. In fact, it would not be an exaggeration to suggest that Ireland would be largely unaffected by FTT.

The Central Bank, however, warned that an FTT might nonetheless have a significant impact on the behaviour of financial sector firms in Ireland, and was concerned about potential job losses in some though not necessarily all sectors:

> [The FTT] may affect the profitability of firms whose activities encompass various parts of the financial intermediation chain including various types of fund managers and firms engaging in frequent transactions to hedge the risk in certain products (Central Bank of Ireland and ESRI 2012).

The extent to which these concerns were well grounded is unclear. If the proposition that the EU FTT would not yield much revenue was true, it could not lead to capital flight either. It could not both have an impact and fail to have an impact at the same time. Moreover, Ireland's Stamp Duty on financial activities is currently set at 1 per cent, which is double the UK rate of 0.5 per cent, yet this does not seem to deter the sectors of the business that are most directly affected.

There are clearly other reasons besides tax minimization why these firms prefer to locate in Ireland. Firms' calculations about tax arbitrage are complex, and the costs of relocation are not nugatory. The Irish Central Bank acknowledges that transaction tax would be just one of many concerns in the choice of location for the financial services. Other concerns such as overall taxation rate, availability of skilled employees, political and economic stability, and particularly the clarity and predictability of the regulatory environment, are all acknowledged as important considerations for business (Interview 5, 20 June 2017). Many officials agree that the availability of skilled employees, transparent taxation rules, and the ease of administration make Ireland attractive for internationally mobile firms. An IDA official adds that 'A lot of financial firms are not incentive-driven. They mostly look at regulation and the availability of skilled people. Tax becomes important only when you are profitable' (Interview 5, 20 June 2017).

The evidence of a real threat of relocation is unclear, but there was nonetheless strong agreement between the industry and the policymakers that the risk is not worth taking. In the Oireachtas debate in Dáil Éireann on 5 July 2012, Minister Michael Noonan argued that EU FTT might result in the relocation of financial services (potentially to London), lower levels of activity in the sector and hence reduced income and corporation tax, and the loss of stamp duty fees once the FTT replaced stamp duty (Oireachtas Debates

2012). Minister Noonan also stated the view that the FTT initiative should be global or at least EU-wide 'to prevent distortion of activity in the EU'.

A former senior official at the Department of Finance concurred, saying that: 'We are a small open economy. We have to be alert to competitive threats. If the UK and Luxembourg stayed out of it, it was better for us to stay out of it too' (Interview 3, 15 June 2017). An industrial development official at the IDA echoes this point though on a broader geographical canvas: 'We did not want to introduce FTT unless the US introduced it. Competition for FDI is global, not just European' (Interview 5, 20 June 2017). Yet another official argues that 'in this design, they would just go somewhere else. For it to be a good thing, it should be applied globally' (Interview 6, 20 June 2017). And it is not just a matter of not wishing to alienate existing firms, but of keeping the flow of future investors coming in. A senior industrial policy official noted that an FTT might be electorally popular in the countries supporting it, but that it would risk choking off further potential for growing investment in financial services in those very countries: 'f nine countries [sic] without financial services bring it in, they will never have financial services. But they will probably get votes in their countries' (Interview 5, 20 June 2017). A former government minister summarized the case thus: 'Competitiveness is not about the trading effect on individual firms. It's about attracting new firms, or more investment from existing international firms. The advantage for Ireland (in relation to the FTT) is in being a tax-free location' (Interview 12, 29 June 2017).

The uncertainties surrounding Brexit complicates official thinking. A 2017 Department of Finance report notes that financial services are highly exposed to the British market. Irish exports to the UK account for 10% of Ireland's total exports, or 19% of the total of services exports. Compared with other European countries, Ireland is in the upper range of the most exposed countries in a number of services sectors:

Looking at the size exposure for Financial Services, at 2.7 per cent, the importance of this sector's exports to the UK for Ireland's total services export portfolio is only exceeded by that of Luxembourg, at 7 per cent. On the proportional exposure measure, 33 per cent of Ireland's Financial Services exports are to the UK (Smith et al. 2017, p.19).

Several interviewees speculate that Ireland could benefit from increased FDI from firms that would have otherwise have located in the UK, for which EU market access is the primary consideration (Smith et al. 2017, p.15). The logic of this is that the FTT would make little or no difference to most such firms. But uncertainty and risk-aversion might equally cause policy-makers to double-down on the value of generalized signalling that Ireland provides a welcoming environment for financial services activities.

The influence of the financial sector over policy preferences appears, on this account, to be both strong and direct: they were particularly effective in building credibility round the risk of disinvestment. Which ideas are perceived as credible, and why, demonstrate a substantial power over ideas. Moreover, by using their power in ideas, the financial sector can in fact make a credible disinvestment threat (as perceived by the policymakers). A financial consultant suggests that 'the government knows that the sector is too important' not to cultivate it carefully (interview 4, 12 June 2017). A senior industrial policy official argues that the plans for introducing an FTT were not adopted, because '[Ireland] is a policy-literate country, we are policy-intelligent. Policymakers have a healthy scepticism, cynicism, against these proposals [FTT] made for ideological reasons' (interview 5, 20 June 2017). This is almost perfect example of power over ideas: the ability to regulate the public discussion and to present self-interest as 'regulatory common sense' and frame the proposal 'ideological' and hence driven by political reasons rather than economic rationality' (Carstensen and Schmidt 2016; Mügge 2013).

Policymakers and industry representatives alike characterized opposition to the EU FTT as 'the right thing to do', given its technical design features and the likely impact on the key priorities for Irish industrial development policy (Interview 6, 20 June 2017; Interview 8, 12 June 2017; Interview 14, 18 July 2017; Interview 15, 18 July 2017).

Conclusion

The EU FTT provides an excellent case study through which to analyse the role of the financial industry in articulating its preferences on initiatives that would regulate or otherwise constrain it. Variation across member states' preferences provides the focus for analysing national preference formation.

Tax and regulatory preferences in the Irish case are often viewed as unproblematic in the light of its economic openness and trade dependence. We think this view is too simple: we have sought to unpack the process through which the preferences of the financial services sector were adopted by Irish policy-makers, such that Ireland did not agree to participate in the FTT.

We have suggested that a long-standing official commitment to export-led growth created an ideational framework supportive of private sector priorities, and that the institutionalization of consultative mechanisms permitted the preferences of the financial services sector to be relayed directly to government. But we have resisted viewing decision-making processes as a simple instance of state capture, since this assumes a priori that the outcome is inevitable. We distinguish the broad policy settings from specific techniques and methods of policy choice. When it comes to discrete policy decisions and mechanisms, and especially on issues that are the subject of political mobilization, there is no necessary guarantee that industry preferences will prevail. We view the ideational frameworks of policy officials and industry interests on the other as converging rather than as identical. We have sought to unpack the causal pathways through which such a convergence might take place.

The institutional framework should not be seen merely as a transmission belt for the financial services industry to convey its preferences into the heart of government and of public policy; but the structures do generate a great deal of power 'over' ideas. The Industry Advisory Committee provides an arena within which the market-conforming preferences of the industry on the one side, and the economic development priorities of the state officials on the other, can find common ground.

Our contention is that the views of policymakers converge with the industry point of view, without their necessarily sharing similar beliefs and interpretations regarding a policy, but arising from the institutionalized scope for convergence around preferences. Public officials' ideational framework, grounded in a growth strategy that has evolved over several decades, makes their preferences highly congruent with those of industry, at least in the case of the FTT. But there is at least some empirical evidence that the independence of thought and action they claim guides their actions can indeed result in outcomes other than those preferred by the industry. This is the space the pro-FTT activists seek to enlarge. So far though, they have failed to capture much ground, not because the empirical evidence is necessarily against them, but because they struggle in the battle of ideas about how the economy works and what is 'best for the society'.

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All shortcomings are of course our own.

Appendix 1: Financial services in the economy: employment, Gross Value Added, share of export profits, 2015

Country	Gross Value Added (% of value added)	Share of Financial Services Exports (% of total services exports)	Employment in the Financial Sector (%of total employment)
Luxembourg	26.62	61.60	18.2
Netherlands	7.39	3.84	2.72
UK	7.24	29.77	3.35
Ireland	6.31	17.55	4.05
Belgium	6.28	8.17	1.11
Italy	5.70	6.47	2.80
Portugal	5.42	1.81	0.80
France	4.48	7.42	1.18
Slovakia	4.34	3.35	0.84
Austria	4.23	5.37	3.60
Slovenia	4.16	2.35	1.10
Germany	4.06	13.20	1.45
Estonia	3.96	1.80	0.71
Spain	3.92	4.75	0.76
Finland	2.85	2.10	0.81

Sources: GVA - OECD (2017) Value Added by Activity: Finance and Insurance

Share of financial services exports – World Bank (2017) Insurance and Financial Services (% of service exports, BoP)
Employment in financial sector - OECD(2017) Population and Employment by Economic Activity.

Appendix 2. Number of hedge funds and support for FTT

Country	Number of hedge funds	Support for European FTT
UK	800	No
Ireland	731	No
Luxembourg	246	No
Netherlands	68	No
Spain	48	Yes
Italy	32	Yes
Germany	22	Yes
Finland	12	Yes
France	13	Yes
Austria	11	Yes
Portugal	3	Yes
Estonia	1	Yes
Belgium	0	Yes
Slovakia	0	Yes
Slovenia	0	Yes

Sources: European Central Bank, City of London Report (2014).

Appendix 3. Interviewees

Interviewee number	Organization/ role	Date of interview
1	Financial services derivatives sales trader	1 June 2017
2	Financial services tax consultant, large accountancy firm	15 June 2017
3	Financial services FTT adviser, large accountancy firm	15 June 2017
4	Financial consultant	12 June 2017
5	IDA official (financial services)	20 June 2017
6	IDA official (tax)	20 June 2017
7	Industry body	12 June
8	Dept of Finance official	12 June
9	NGO – Robin Hood Tax campaign	9 June
10	Statistician, financial services, CSO	14 June
11	Statistician, tax, CSO	14 June
12	Former Government Minister	28 June
13	Fund Representative	19 July
14	Senior Department of Finance official	19 July
15	Senior Department of Finance official	19 July
16	Industry Support Representative	25 July
17	Elected national politician	26 July

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