FOUR ESSAYS ON CONFLICTS OF INTEREST IN SOVEREIGN DEBT MANAGEMENT

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To Natalie, Alessandro and my parents

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Abstract

Since the early 1980s an increasing share of countries have been experiencing a wave of reforms overhauling the scope and organisation of sovereign debt management. Guaranteeing independence from the political cycle, governments have been outsourcing the debt management task to specialised executive agencies operating at varying arm's-length – i.e. debt management units (DMUs). In parallel, easing their access to global capital markets, governments have been establishing a primary dealer system. Via self-enforcing arrangements ('dealerships'), DMUs have been appointing a restricted club of national and international financial institutions (the 'dealers') to actively participate in government debt securities auctions and/or foster secondary market liquidity.

Stemming from such institutional developments, this doctoral dissertation identifies and manages conflicts of interest arising from the DMU-dealer principal-agent relationship. Its overarching purpose is to design solutions assisting monitoring and eventual regulatory interventions curbing the risk of negative externalities. To this end, the thesis examines the interplay between government and financial markets drawing on a theoretical framework. It then focuses on the DMU-dealer professional exchange (i.e. the revolving door phenomenon) as a mechanism channelling diverse pathologies and exacerbating the risk of conflicts of interest.

The dissertation's main argument is that due to the state's increasing dependence on global financial markets, the institutional setting framing modern government debt management bears the risk of public-private collusion. Although this practice would guarantee the government ongoing access to capital markets, the argument is that it would come at the cost of negative externalities generating financial losses for taxpayers.

Developing this argument, the thesis articulates in four essays describing, first, how the dealership would host institutional room for collusion, to then examine the revolving door as a propagation channel exacerbating such risk. Addressing the identified issues, the regulatory approach aims at preserving both the partnership's synergies and the value-creating effects of the revolving door.

Drawing on inductive reasoning, this dissertation's overarching purpose is to provide policymakers with solutions for effectively identifying and managing the risk of conflicts of interest inherent in long-term public-private relationships and in the revolving door phenomenon. Casting light on idiosyncrasies in the institutional setting framing sovereign debt management, the doctoral thesis aims at steering policymakers towards the establishment of a sustainable partnership with the financial industry. An issue of timely importance as the global economy is experiencing a wave of overlapping crises which have triggered an increase in government borrowing needs.

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Introduction

1. Institutional background

Since the early 1980s, coping with rising levels of debt-to-GDP ratio and rampant financial innovation (Currie, Dethier, and Togo 2003; Datz 2008), developed and developing countries have been undergoing an extensive overhaul in government debt management (International Monetary Fund and World Bank 2001; Borresen and Cosio-Pascal 2002). Complying with fiscal consolidation measures triggered by the 1980s debt crisis and the establishment of the European Economic and Monetary Union (Borresen and Cosio-Pascal 2002; Mosley 2004; Trampusch 2015; Lagna 2016; Preunkert 2017), states have been implementing policy packages encompassing the scope and organisation of debt management. A process which has been guided by multilateral financial institutions,[1] international organisations,[2] think tanks,[3] the financial industry, and professional services companies (Datz 2008; Lemoine 2013; 2016; Sadeh and Rubinson 2017; Trampusch 2019) – see Figure 1.

Framed in the process of financialization of the state (Epstein 2005) and, more broadly, in neoliberal policymaking (Preunkert 2020a), the government has been fostering the DMU's autonomy to increase its credibility towards financial markets, separate monetary from fiscal policy, and improve agency performance (Currie, Dethier, and Togo 2003). Operatively, states have turned into financial market players by increasingly marketizing central government debt, implementing cutting-edge financial techniques to its management,[4] and appointing public officials with financial industry expertise (Piga 2001; Datz 2008; Lemoine 2016; Fastenrath, Schwan, and Trampusch 2017).

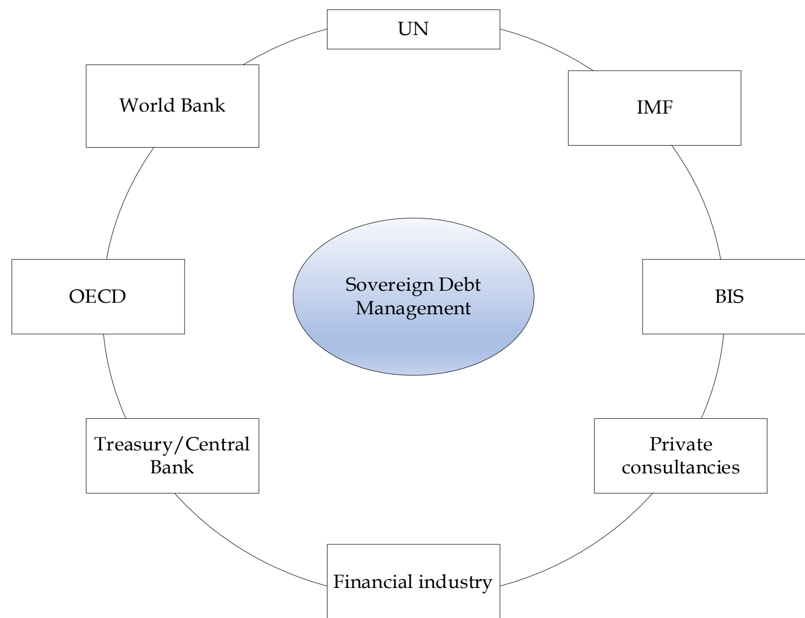
[1] The Bank for International Settlements (BIS), the International Monetary Fund (IMF) and the World Bank (International Monetary Fund and World Bank 2001; Blommestein and Turner 2011; International Monetary Fund 2014).

[2] The United Nations (UN) (Borresen and Cosio-Pascal 2002; OECD 2002; UN 2004; 2006).

[3] The Organisation for Economic Co-operation and Development (OECD) (Borresen and Cosio-Pascal 2002; OECD 2002).

[4] I.e. actuarial finance software, portfolio theory-based models, derivative transactions, for a compelling overview, see (Fastenrath, Schwan, and Trampusch 2017).

Figure 1. Actors shaping modern sovereign debt management



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1.1 Outsourcing government debt management

Prior to the wave of reforms, the debt management task lacked rationalisation and was only partially subjected to the logic of capital markets (Borresen and Cosio-Pascal 2002; Lemoine 2016). In such a framework, the central bank was the institution in charge of issuing and managing government debt (McCauley and Ueda 2012).[5] Upon policy implementation, modern sovereign debt management aims at minimising long-run government funding costs constrained to prudent risk management (International Monetary Fund and World Bank 2001; Blommestein and Turner 2011; IMF 2017). Fulfilling this task, governments have been adopting sound debt management strategies embedded in an institutional framework guaranteeing a certain degree of independence from the electoral cycle (Currie, Dethier, and Togo 2003). To this end, an increasing share of OECD countries have been outsourcing the debt management function from either the Ministry of Finance (MoF) or the central bank to autonomous executive agencies – debt management units (DMUs) – with a degree of independence

[5] See, for instance, the outsourcing process from the Reserve Bank of India and the Bank of England (Currie, Dethier, and Togo 2003, 13; Singh 2013).

varying across jurisdictions (Currie, Dethier, and Togo 2003).[6] A process framed in New Public Management (Mcluaghlin, Osborne, and Ferlie 2002; Diefenbach 2009) and, more precisely, in the wave of agencification of public policy implementation tasks (Verhoest 2017).

Figure 2. Institutional ecosystem framing modern government debt management

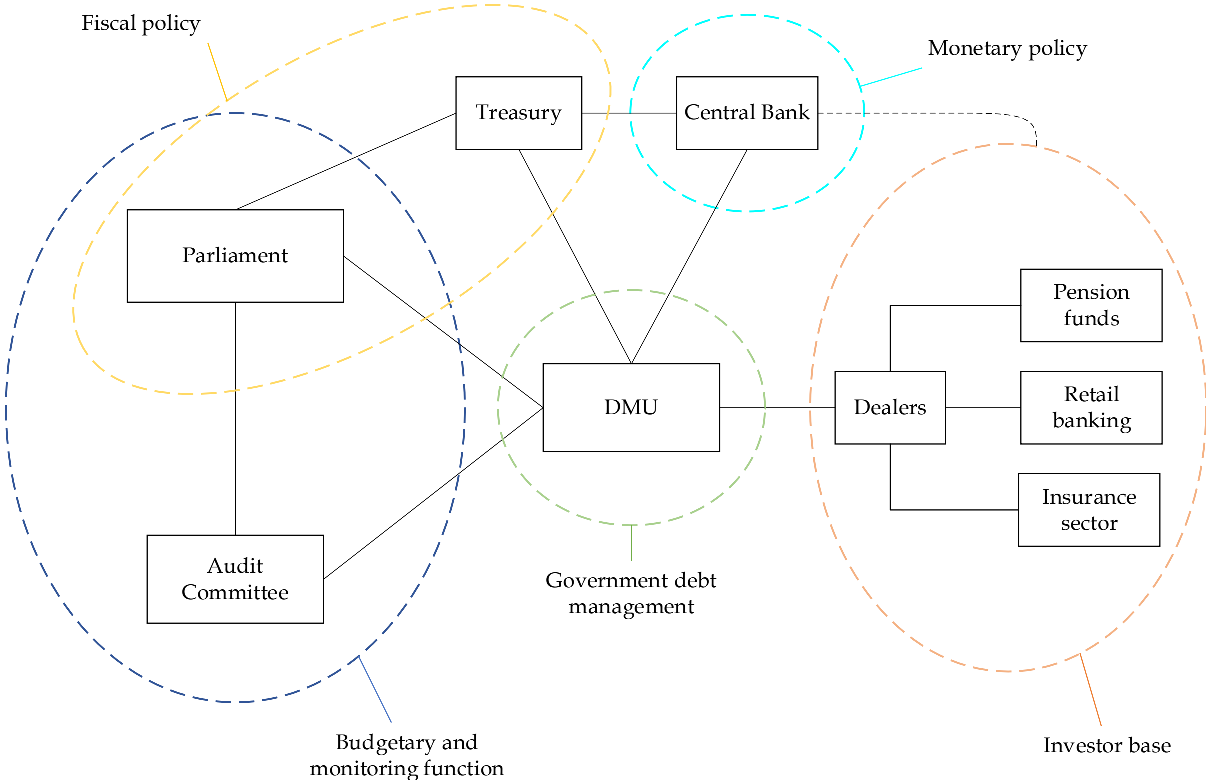

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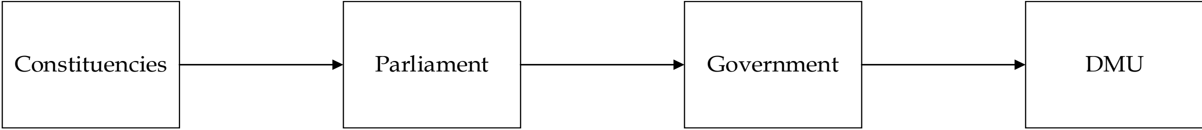
Figure 2 illustrates the actors framing the policy domain of government debt management, highlighting their functions and relationships. In this institutional setting, the parliament is empowered with proposing and approving the central government budget and the treasury with executing the fiscal policy. Beyond shaping the monetary policy, the central bank holds ancillary functions affecting sovereign debt. In a crisis it intervenes in the secondary market for government bonds to

[6] To name a few, the Deutsche Bundesfinanzagentur (BDFA), New Zealand Debt Management Office (NZDMO), Greek Public Debt Management Agency (PDMA), and Irish National Treasury Management Agency (NTMA). However, in OECD countries there are institutional outliers, where the DMU is still part of the MoF (e.g., Italy and Spain) or the central bank (e.g., Denmark and Iceland).

guarantee financial stability in its currency area (Preunkert 2020a, 18–19); and, jointly with the treasury, it outlines the government debt management strategy (OECD 2002, 104). Nevertheless, the DMU ultimately carries out debt management day-to-day operations accountable to the responsible ministry or the central bank (OECD 2002; Williams 2010; Trampusch and Gross 2021), the national parliament (e.g., treasury committees) and constituencies.

Such a governance architecture leads to a multilevel principal-agent relationship (Reichert and Jungblut 2007) involving three layers: (*i*) national constituencies (principal) and the elected parliament (agent); (*ii*) the parliament (principal) and the government (agent); and (*iii*) executive bodies[7] (principal) empowering the DMU (agent). Within such a delegation chain, acting as government's fiscal agents, DMUs are ultimately accountable to taxpayers – see Figure 3.

Figure 3. The delegation chain in government debt management



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Although varying across jurisdictions, the DMU's mandate envisages a wide spectrum of tasks ranging from running auctions of government bonds, risk management and investor relations, to economic forecasting and cash management (Borresen and Cosio-Pascal 2002). Significantly, DMUs are empowered to design the features of each debt issuance – i.e. maturity, currency denomination, indexation and other forms of conditionality (Blommestein and Turner 2011).

As previously mentioned, the rationale underlying the institutional setting depicted in Figure 2 aims at improving the government's credibility towards financial markets by mitigating time inconsistency issues (Kydland and Prescott 1977). Moreover, such architecture would effectively manage conflicts of interest arising from lack of separation of monetary, fiscal, and debt management policy (Milesi-Ferretti 1995;

[7] As an institutional exception, DMUs could be the result of outsourcing from the national central bank.

Cassard and Folkerts-Landau 1997; World Bank 2007). In the EU area, the creation of autonomous DMUs was a necessary step to effectively comply with fiscal consolidation measures and accelerate the process of economic and monetary integration (Trampusch 2015).

Furthermore, according to consulting companies, an autonomous DMU was expected to decrease public spending through a more effective management of taxpayers' money (Trampusch 2015; 2019).[8] Moreover, public debt management experts argue that such institutional design would set the right incentives to attract highly qualified personnel properly carrying out the expertise-intensive debt management tasks (Williams 2010). Encompassing financial practice, macroeconomics and public policy (Borresen and Cosio-Pascal 2002), public debt managers' field of expertise is vast. To attract and retain such qualified personnel, the public sector has been improving its remuneration schemes and career prospects (Borresen and Cosio-Pascal 2002).

1.2 Primary dealer systems

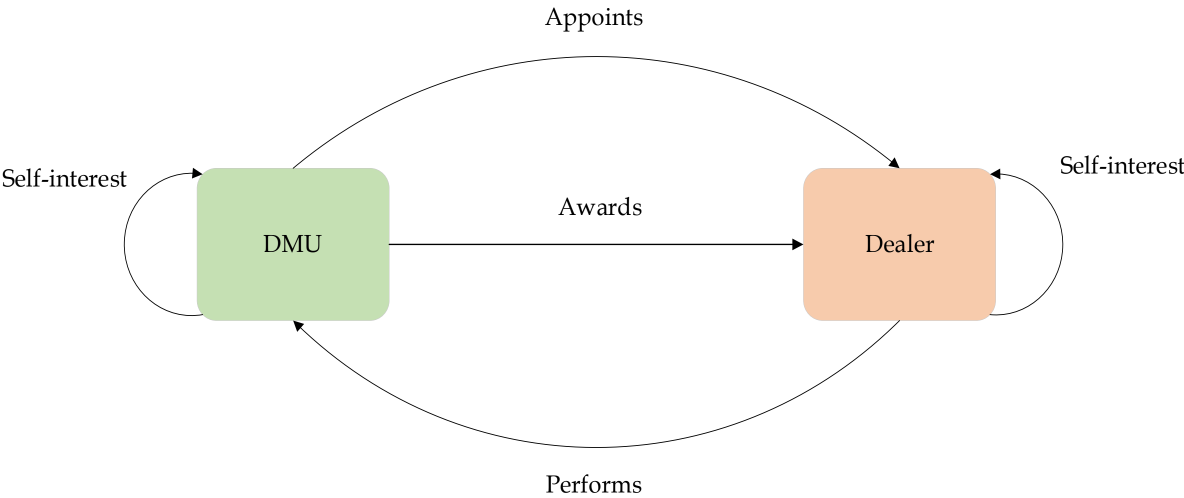
A parallel wave of institutional change overhauled the structure of the primary and secondary market for government debt. Establishing a primary dealer system, governments have been entering partnerships with national and global financial institutions over the participation in sovereign debt auctions and/or fostering liquidity in the secondary market (Arnone and Ugolini 2005; World Bank 2010a).

The 'dealership' is the legal framework regulating the partnership between the DMU and a restricted group of financial institutions, the 'dealers' (World Bank 2010a). This is a bilateral self-enforcing agreement wherein the parties commit to mutual obligations and benefits, whose entity varies across jurisdictions (World Bank 2010, 14). The DMU appoints a financial institution to exclusively participate in the primary market for government securities and/or efficiently allocate bonds to clients in the secondary market (FICC Markets Standards Board 2020).

[8] In 2000 Andersen Consulting, a professional services company guiding the German government in the establishment of an external DMU, estimated savings for 1.4 billion Deutsche Mark (DM) by outsourcing the DMU to an autonomous agency fully owned by the state and under the legal framework of a limited liability company (GmbH) (Trampusch 2015).

Due to lack of feasible alternatives, the parties are locked in the partnership. The government needs the dealers to efficiently access funding (Arnone and Ugolini 2005), Instead, the industry is better off trading government bonds, which apart from being a safe and key benchmark in global capital markets central to portfolio management (Sadeh and Porath 2020, 743), allow to build long-term business relationships with sovereigns and enhance competitive advantage (Preunkert 2020b). Such institutional features make the dealership a principal-agent problem, wherein the DMU (the 'principal') appoints the dealer (the 'agent') to participate in sovereign debt auctions and/or carry out market making – see Figure 4.

Figure 4. The DMU-dealer principal-agent relationship



Source: Author's own illustration

Given the parties' dichotomous business models, the dealership hosts inherent conflicts of interest: the industry's commitment to profit maximisation contradicts the DMU's remit of minimising borrowing costs in the long-run (World Bank 2010a, 27; FICC Markets Standards Board 2020, 7–8). In particular, the dealership works as a *quid pro quo* arrangement, wherein the DMU implements a debt management strategy meeting market demands and induces the industry to commit through performance-based compensations (World Bank and International Monetary Fund 2001, 175; Sadeh and Porath 2020). In exchange the dealer provides the government with ongoing access to capital markets by regularly participating in treasury auctions and/or fostering market liquidity.

2. Dissertation

Stemming from the afore-outlined institutional developments, this dissertation identifies and manages actual and potential conflicts of interest arising from the DMU-dealer interaction. Its overarching purpose is to design policy solutions to assist monitoring and eventual regulatory interventions curbing the risk of negative externalities. To this end, this doctoral thesis examines the interplay between government and financial markets from a theoretical perspective, to then focus on the DMU-dealer professional interchange (i.e. the revolving door phenomenon) as a mechanism exacerbating the risk of potential conflicts of interest and channelling diverse pathologies (OECD 2010).

Setting the dissertation in OECD jurisdictions aims at examining the DMU-dealer interaction in a highly developed economic context, wherein the outsourcing of debt management and the introduction of primary dealer systems have been widely implemented (Currie, Dethier, and Togo 2003; Arnone and Ugolini 2005; Preunkert 2020b).

Assessing the advantages and disadvantages of primary dealer systems, scholars and policymakers have been focusing on addressing the risk of dealer-dealer collusion (Rieber 1964; Arnone and Ugolini 2005; World Bank 2010a; FICC Markets Standards Board 2020), without considering the potential rise of public-private collusion. This is a hazard flimsily theorised by the socio-economic literature (Dobry 1986; Lemoine 2013, 6), and identified by debt managers in the form of industry capture (Arnone and Ugolini 2005, 51).[9] Drawing on such intuition, the doctoral dissertation's main thesis is that, due to the state's increasing dependence and reliance on global financial markets (Blyth 2013; Streeck 2014; Braun 2020; Rommerskirchen and van der Heide 2022), the institutional setting framing the DMU-dealer partnership bears the inherent risk of public-private collusion. Although such practice would guarantee the government ongoing access to capital markets, the argument is that it comes at the cost of negative externalities for taxpayers and activities undermining public integrity.

[9] '[Italy responding to a survey of a primary dealer system's disadvantages] Risk that the debt management policy may be sometimes influenced by views that are more biased towards primary dealers' own interests than those of the sovereign issuer'.

Developing this argument, the four forthcoming essays examine: (*i*) how the dealership would host institutional room for collusion; (*ii*) the revolving door between the DMUs and the dealers; (*iii*) the potential effects of the phenomenon on DMU's governance and operations; and (*iv*) the degree of effectiveness of the current regime regulating revolving doors. Addressing the identified issues, the dissertation aims at providing policymakers with effective regulatory solutions preserving the mutual profitability of the public-private partnership along with the revolving door phenomenon.

Advancing its argument, the doctoral thesis relies on various methodologies and approaches spanning from statistical data analysis, interviews and surveys with DMUs,[10] to game theory (Tadelis 2013), investigative journalism (de Burgh and Lashmar 2021),[11] and tools from political economy and economic sociology – i.e. social network analysis (Jackson 2010), sequence analysis and optimal matching (Abbott 1995; Gabadinho et al. 2011). Examining the revolving door phenomenon, the research strategy consists first in collating a database tracing public debt managers' careers, to then cast light on salient case studies and hotspots of risk, an approach championed by the methodological literature (Zinnbauer 2015, 27–28).

The opening essay provides an overview of the DMU-dealer principal-agent relationship, identifying agency costs and designing feasible normative solutions mitigating those. The second study is an empirical account of public debt managers' professional ties revealing the endemic presence of the revolving door phenomenon with respect to the dealers of government securities. Hence, the third paper assesses the potential benefits and risks borne by the professional interchange for DMU's governance, and designs policy solutions. The concluding essay evaluates the effectiveness of revolving door restrictions, highlighting loopholes in their implementation and advocating for regulatory proposals fostering enforcement.

The first essay – 'Agency costs in primary dealer systems' – analyses the contractual framework regulating the DMU-dealer partnership through the lens of neo-

[10] Interview with the UK DMU Head of Dealing, Martin Duffell, along with surveys submitted to the Australian and Italian DMU.

[11] Submitting freedom of information requests, filing complaints to ethics bodies, and carrying out interviews in a controversial policy territory – see ibid.

institutional economics and systematically identifies agency costs. Beyond the presence of monitoring costs, the essay argues that the partnership leaves institutional room for collusion schemes in the form of bonding costs. Managing the risk of negative externalities, the study calls for enhanced monitoring of fixed income markets and transparency in the governance of the dealers' benefits.

The second essay – 'Revolving doors in government debt management' – empirically assesses the revolving door phenomenon between DMUs and dealers across a sample of 27 OECD countries. Deploying a unique longitudinal data set describing the career trajectories of 655 former and in office public servants, the essay identifies that the most frequent career trajectories across the sample involve transitions to and from the dealers. The study finds that although the main cause of the phenomenon is expertise funnelling the implementation of financialization and neo-liberal policies (Louçã and Ash 2018), it might exacerbate the risk of conflicts of interest inherent in the parties' *quid pro quo* relationship.

The third essay – 'Regulating the revolving door: The case of government debt management' – examines the potential risks and benefits of the revolving door in government debt management and designs policy solutions accordingly. Drawing on case studies, an interview and surveys to a sample of DMUs, the study systematically identifies areas of governance where the revolving door could exacerbate conflicts of interest. Policy proposals call for enhanced transparency in opaque DMU operations and the update of internal codes of conduct.

The study concluding the dissertation – 'The effectiveness of revolving door laws: Evidence from government debt management' – assesses the effectiveness of revolving door restrictions, in terms of enforcement quality and public officials' compliance. Drawing on the data set collated in the second essay, the paper examines to what extent OECD jurisdictions implement revolving door laws. Constructing a sample of eight countries, the study provides empirical evidence that although revolving door laws are in force, jurisdictions host an enforcement gap. Advancing regulatory solutions, the study proposes clearer conflict of interest policies and the establishment of ethics bodies with monitoring and enforcement power.

Adopting inductive reasoning, this dissertation's overarching purpose is to provide policymakers with insights to effectively manage the risk of conflicts of interest inherent in long-term public-private relationships and in the revolving door phenomenon. Casting light on idiosyncrasies in the institutional setting framing sovereign debt management, the doctoral thesis aims at steering policymakers towards the establishment of a sustainable partnership with the financial industry. An issue of timely importance as the global economy has been experiencing a wave of overlapping crises which have triggered increasing government borrowing needs (Mackenzie and Sahay 2022; IMF 2022a).[12]

[12] See the fiscal effects of the COVID-19 pandemic (International Monetary Fund 2020), and how geopolitical confrontations (i.e. Sino-American competition and the Ukrainian war) have been increasing government borrowing needs worldwide (IMF 2022b). Furthermore, the recent financial crisis triggered by the bankruptcy of the Silicon Valley Bank has led to a surge in funding costs for countries with high outstanding debt – e.g., Italy (Tito 2023).

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I

Agency costs in primary dealer systems*

Abstract

Easing their access to capital markets, governments have been establishing a primary dealer system. Via bilateral self-enforcing agreements ('dealerships'), government debt management units (DMUs) have been appointing national and global banks (the 'dealers') to actively participate in government securities auctions and/or enhance liquidity in the secondary market. The partnership's non-binding and long-run nature makes dealerships relational contracts. Developing a theoretical framework, this study examines the DMU-dealer principal-agent relationship, with the overarching purpose of identifying and mitigating agency costs. Apart from monitoring costs, this essay argues that the partnership entails institutional room for public-private collusion. Although the practice would help foster the partnership's longevity, it could trigger negative externalities. Mitigating potential risks, policy proposals advocate to enhance: (*i*) monitoring of the dealers' behaviour in fixed income markets, and (*ii*) transparency in the DMU's governance of the industry's benefits.

Key words: public finance, government debt management, relational contracts, agency costs, dealers

JEL classification: G18, H63, K12, L14, L51

* Ancillary information on the primary dealer system was collected in an interview with UK DMU Head of Dealing, Martin Duffell, which was recorded with approval of the interviewee on 4th October 2021. A version of this essay was published in the Institute of Law and Economics Working Paper Series (Silano 2023).

1. Introduction

Since the early 1980s, developed and developing countries have been undergoing institutional reforms increasingly marketizing government debt (Currie, Dethier, and Togo 2003; Lemoine 2013; 2016). A process framed in state's financialization, it has led governments to establish partnerships with national and global financial markets via primary dealer systems (Lemoine 2013; Fastenrath, Schwan, and Trampusch 2017).

A 'dealership' is a self-enforcing agreement between a government debt management unit (DMU) and a financial institution (the 'dealer'), where the former appoints the latter to actively participate in the primary market for sovereign debt and/or enhance liquidity in the secondary market (World Bank 2010a, 15; FICC Markets Standards Board 2020). In exchange, the DMU provides the dealer with pecuniary and non-pecuniary benefits varying across jurisdictions and institutional frameworks (World Bank 2010a, 19–27).

Given the partnership's long-term nature, the literature labels the dealership as a relational contract (Obstfeld and Rogoff 1996; Benczúr and Ilut 2016; Sadeh and Porath 2020). Moreover, as the service object of transaction is affected by uncertainty (Sadeh and Porath 2020), dealerships can be analysed through the lens of complex contract theory (Brown, Potoski, and Van Slyke 2010; Brown, Potoski, and Slyke 2016).

Due to path-dependence and a lack of feasible alternatives the parties are locked in a prisoners' dilemma: the government needs the dealers to efficiently finance its debt; and the industry enhances its competitive advantage and reputation trading government bonds, a pivotal benchmark in global financial markets (World Bank 2010a; Preunkert 2020b).

Due to the parties' conflicting interests, both the DMU and the dealer have an incentive to behave opportunistically. Indeed, the dealer's short-term objective of maximising operative profits contradicts the DMU's mandate of minimising government borrowing costs in the long-run (FICC Markets Standards Board 2020, 7). Within the economy of the contract, as promoter of the agreement, the DMU must ensure the dealership being attractive to the industry by balancing obligations with benefits, without acting against the interest of taxpayers (World Bank 2010).

Stemming from the afore-outlined institutional arrangement, this essay provides a systematic overview of the agency costs inherent in the DMU-dealer contractual framework and envisions feasible normative solutions mitigating these. Drawing on the parties' micro foundations, the analysis develops a theoretical model describing the DMU-dealer strategic interaction. The study shows that both the DMU and the dealer incur monitoring costs arising from the parties' discretionary behaviour. Additionally, the essay argues that due to the government's increasing dependence and reliance on financial markets (Blyth 2013; Streeck 2014; Braun 2020; Rommerskirchen and van der Heide 2022), DMUs would have the incentive to collude with the industry inducing the latter to perform. Although such practice would signal the dealers reciprocity, it bears the risk of negative externalities for taxpayers. Addressing the identified issues, regulatory proposals call for enhanced supervision of fixed income markets and transparency in the governance of the dealers' awards.

Theoretically illustrating the DMU-dealer strategic interaction, this study advances the literature in the political economy of sovereign debt management. Significantly, it provides a systematic overview of the parties' micro foundations and how these, along with uncertainty, affect the dealership's cyclical outcomes. The analysis' policy implications shall guide policymakers predicting the parties' behaviour, with the ultimate purpose of improving the partnership's sustainability.

This essay takes the following form. Section 2 is an overview of the primary dealer system and Section 3 of the theoretical literature. Then, Section 4 outlines the parties' micro foundations drawing on real-world cases and a theoretical illustration. Hence, Section 5 provides an analysis of agency costs and normative solutions mitigating those. Finally, the conclusion summarises the findings and policy implications sketching avenues for future research.

2. Primary dealer systems

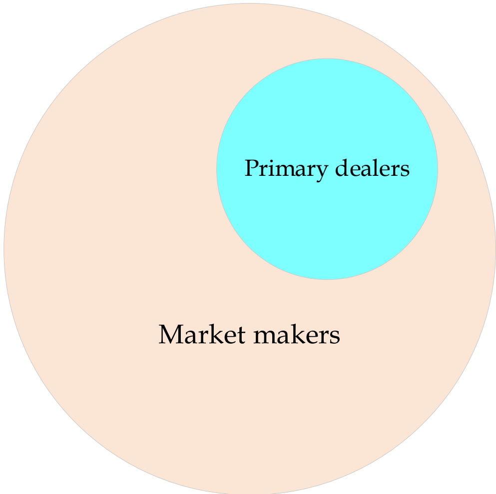
Fostering liquidity in sovereign debt markets, developed and developing countries have been relying on multilateral financial institutions guiding the implementation of a primary dealer system (Arnone and Iden 2003; Arnone and Ugolini 2005).

As the successful introduction of the framework requires a highly developed capital market, primary dealer systems are mostly diffused among advanced economies (World Bank and International Monetary Fund 2001; World Bank 2010a). Selecting their partners in managing government debt, the DMU requires prospective dealers to comply with eligibility criteria. These, although varying across jurisdictions, involve capital and organisational requirements, respectively guaranteeing stability in fixed income markets and the technological infrastructure underpinning market liquidity (World Bank 2010a, 10–11).

Primary dealer systems were first introduced in the US in 1960 (The Heritage Foundation 2017; Preunkert 2020b) and in Europe in 1986, by the UK and France (Lemoine 2013). Prior to the implementation of reforms, governments around the world issued debt limitedly subjected to capital markets' logic and relying on the central bank (Lemoine 2013; McCauley and Ueda 2012; Currie, Dethier, and Togo 2003).

Being self-enforcing relational contracts, dealerships are embedded in flexibility allowing the parties to adapt the agreement according to the state of the economy (World Bank 2010a, 14). Varying across jurisdictions, dealerships are framed in diverse contractual frameworks ranging from a memorandum of understanding and a Code of Duties, to a procedural manual and a decree (World Bank 2010a, 14).

Figure I-1. Primary dealers are a subset of all secondary market participants



Source: Author's own illustration

The umbrella term 'dealers' denotes two categories of financial institutions: the 'primary dealers' and ancillary market makers (the 'secondary dealers') – see Figure I-1. The main difference between the two is that the primary dealers hold the exclusive right of participating in government debt auctions, whereas the secondary dealers' operations are circumscribed to the secondary market. Nonetheless, both categories enter an agreement (the 'dealership') with the national DMU: either a 'primary dealership' or an *ad hoc* partnership,[1] the former entailing more benefits and obligations than the latter (FCA 2022a, 7).

2.1 The dealers' benefits and obligations

As promoter of the dealership, the DMU must make the partnership attractive to the industry by balancing benefits with obligations (World Bank 2010a). The DMU awards the dealers based on qualitative parameters – e.g., quality of advice (Lemoine 2013, 16) – and their performance in the primary and secondary market, mostly tracked in league tables (World Bank 2010a, 34). Widely diffused among OECD countries,[2] such rankings aim at enhancing competition among dealers (Lemoine 2013; World Bank 2010a, 21). Those banks most actively participating in debt auctions and/or efficiently distributing bonds in the secondary market are likely to be awarded with pecuniary and non-pecuniary benefits. Whereas well-positioned dealers have the right to enter profitable agreements with the state, less performing ones risk being excluded from the partnership (World Bank 2010a; Reuters 2015). Framed in a self-enforcing arrangement, the parties deserve the right to quit the dealership in case they deem it not being beneficial (Telser 1980). Overall, as arose in an interview with the UK DMU's Head of Dealing, Martin Duffell, the system for awarding the industry could either be *rigid* or *loose* (UK DMO 2021a).[3] The main difference between the two is that the former sets the range of benefits *ex ante* and does not allow re-negotiations *ex post*, whereas

[1] DMUs appoint ancillary market makers to operate in the electronic inter-dealer market – e.g., MTS (Euronext) (MacKenzie et al. 2020; FICC Markets Standards Board 2020).

[2] Austria, Canada, Czech Republic, France, Greece, Hungary, Ireland, Italy, Japan, the Netherlands, Poland and Portugal (World Bank 2010a, 21).

[3] For the list of the interview questions, see Appendix A.

the latter allows the parties to revise the agreement according to the dealers' performance and market fundamentals *pari passu*.

Although the dealers' benefits vary across jurisdictions, the most salient ones consist in the participation in syndicated auctions entailing lucrative fees and acting as exclusive counterparty in derivative deals (World Bank 2010a). Additionally, dealers could be appointed by the government to participate in projects involving privatisations and financialization (Preunkert 2020b). Ancillary benefits are non-pecuniary as these improve dealers' reputation or communication with DMUs - e.g., being exclusive trader of government debt or participation in meetings with debt managers that happen behind closed doors (Preunkert 2020b; United Kingdom Debt Management Office 2021, 18).

2.2 The system's advantages and disadvantages

The main advantage of a primary dealer system is that it provides the government with ongoing access to capital markets. Entering the partnership, the dealers commit to participate in sovereign debt auctions taking the risk of selling securities to clients. The partnership creates a special relation between the government and capital markets which allows the fiscal agent to leverage on the dealers' marketing power to extensively allocate government debt (World Bank 2010a; UK DMO 2021a).

One of the disadvantages of establishing a primary dealer system is that it is a less than efficient market structure (Arnone and Iden 2003, 8). Scholars and policymakers argue that appointing a small number of primary dealers[4] heightens the risk of collusion in security auctions (Rieber 1964; World Bank and International Monetary Fund 2001, 166; World Bank 2010a, 22; FICC Markets Standards Board 2020, 7). In 2021 the European Commission convicted a group of dealers engaging in collusive schemes in the secondary market for government bonds between 2010 and 2015 (European Commission 2021). Another potential risk borne by the framework is that the dealers could capture the debt management policy at their own advantage (Arnone and Ugolini 2005, 51). In this regard, scholars claim that the partnership leaves institutional

[4] A market structure labelled by the literature as *oligopsony* (Beetsma et al. 2020, 99), that is 'a market situation in which the demand for a commodity is represented by a small number of purchasers' (Collins English Dictionary 2023).

room for DMU-dealer collusive transactions potentially triggering negative externalities (Lemoine 2013, 6). By the same token, relying on a theoretical model, Sadeh and Porath (2020) argue that although outsourcing the DMU signals the government commitment to financial markets' preferences, it bears the risk of industry capture. Another issue is moral hazard: given the government's dependence on capital markets to finance its debt, the dealers might opt to systematically behave against the interests of the principal (World Bank 2010a, 9).

3. Theoretical literature

3.1 Agency theory

The principal-agent problem is a theoretical framework with a wide range of applications among the social sciences and beyond. It describes the relationship between the 'principal' and the 'agent', where the former appoints the latter to perform a task in her own interest (Grossman and Hart 1983). The framework is apt at describing institutional settings where, operating under uncertainty, the actors aim at efficiently allocating risk (Holmstrom 1979; Grossman and Hart 1983).

Assuming that both parties are utility maximisers and framed in conflicting interests, the agent does not have the incentive to act systematically in the interest of the principal, and vice versa (Jensen and Meckling 1976). For this reason, appointing the agent, the principal incurs agency costs articulating in three categories: (*i*) monitoring costs, (*ii*) bonding costs and (*iii*) residual losses (Jensen and Meckling 1976, 5–6).

Suffering from asymmetry of information and uncertainty over the agent's action and characteristics, the principal shall exert monitoring activity to mitigate the risk that the counterparty might behave opportunistically (Jensen and Meckling 1976; Holmstrom 1979).

Additionally, the principal could incur bonding costs to induce the agent abiding by the terms of agreement. The underlying rationale is that such *gifts* would have the effect of fostering reciprocity, preventing the rise of opportunism. As highlighted by the economic literature, the practice of gift-giving helps structuring partnerships by establishing mutual trust (Akerlof 1982; Carmichael and MacLeod 1997; Fehr, Goette,

and Zehnder 2009). Although the custom entails the benefit of strengthening relationships, it could trigger adverse effects. A wave of literature prompted by the experimental economics paper by Malmendier and Schmidt (2017) shows that gift-giving could be a source of negative externalities for the public good (Johnsen and Kvaløy 2021).

Lastly, residual losses are ancillary costs originating from the conflicting interests inherent in the agency-relationship: the principal must account for additional losses, as the incentive structure of the agent prevents the latter from systematically maximising the utility of the former (Jensen and Meckling 1976).

3.2 Incomplete contracts

First developed by Hart and Moore (1988), the theory of contract incompleteness argues that the parties entering an agreement cannot account *ex ante* for all possible *ex post* contingencies. The theory posits that, in long-term transactions, the outcome is subjected to uncertainty affecting the outcome *ex post*. Overcoming this issue, scholars suggest allowing the parties to revise or renegotiate the contract upon realisation of the state of the world (Hart and Moore 1988).

Advancing the theory of incomplete contracts for long-term partnerships, Hart and Moore (2008) show that the parties might behave opportunistically increasing their own payoff at the expenses of the counterparty. Borrowing the language from Williamson (1975), the authors assume that the parties could either behave *consummately* or *perfunctorily* (Hart and Moore 2008). Consummate behaviour denotes respecting the clauses of the contract to the letter; instead acting perfunctorily the party does not abide by the agreement and disrupts its win-win spirit. Linking their work to the analysis of agency costs (Jensen and Meckling 1976) the authors introduce the concept of 'shading', which complements the theory of bonding costs. Similarly to Jensen and Meckling (1976), 'shading' denotes a situation wherein the principal worsens his/her own utility at the benefit of the agent, with the ultimate purpose of inducing the latter to perform (Hart and Moore 2008, 3).

Among its broad field of application, Hart and Moore (2008)'s theoretical framework has been applied by Sadeh and Porath (2020) to describe the DMU's discretionary behaviour while interfacing with the dealers. Modelling the dealership

as a signalling game,[5] the authors find that higher DMU autonomy enhances the government's credibility commitment to comply with the dealers' demands. In particular, the study assumes that behaving consummately, the government experiences an individual loss in favour of the industry's utility, which increases the government's reputation towards capital markets. Such behaviour is labelled as 'gift', fostering reciprocity between the parties (Sadeh and Porath 2020, 744).

3.3 Relational contracts

First theorised by MacNeil (1974), relational contracts are self-enforcing institutional frameworks that hold as long as the parties believe these to be mutually beneficial (Telser 1980; Levin 2003). The main feature of relational contracts is that the buyer and the seller enter repeated transactions within a long-term horizon. Depending on the setting, relational contracts embedded in flexibility allow the parties to update the terms of the agreement upon realisations of the state of the world. However, such degree of freedom comes at a cost, as scholars show that the framework might host the risk for collusion and corruption due to its long-term and informal nature (Abbink 2004, 2; Lambsdorff and Teksoz 2004; Troya-Martinez and Wren-Lewis 2017).

An extension of the literature on relational contracts focuses on the role played by uncertainty at shaping their outcome. Research labels relational contracts for complex products, those agreements whose outcome depends on exogenous factors (Brown, Potoski, and Van Slyke 2010; 2013). Drawing on game theory, the authors describe normative solutions to achieve the win-win equilibrium among stakeholders. Reaching Pareto optimality,[6] the argument is that the players shall adopt a tit-for-tat strategy (Brown, Potoski, and Van Slyke 2010).[7] The literature on public administration

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[5] A theoretical framework wherein players could signal their type to the counterparty who, upon revelation, makes conjectures over the former's characteristics to select her course of action (Tadelis 2013, 318).

[6] An economic concept describing an equilibrium solution wherein resources are optimally allocated (Tadelis 2013, 57)..

[7] 'Tit-for-tat' is a strategy discovered by Axelrod (1980) in the context of computer tournaments involving the repeated version of the prisoners' dilemma. Initially committed to cooperation, responding to the opponent's deviation, the parties would retaliate by taking the strategy played by the opponent in the previous round.

has been focusing on developing theoretical frameworks describing contracts with a stochastic component, as these are increasingly applicable to real-world situations (Brown, Potoski, and Slyke 2016; Brown, Potoski, and Van Slyke 2018). Besides, such theory is apt at describing contractual settings where the parties enter an agreement implying an initial investment (sunk cost), locking them in the relationship due to path dependence – i.e. public-private partnerships (PPPs) (Brown, Potoski, and Van Slyke 2010).

4. The parties' micro foundations

4.1 The dealership as a prisoners' dilemma

While the DMU's mandate is to minimise long-run borrowing costs, the dealer's business model aims at maximising operative profits (World Bank 2010a; FICC Markets Standards Board 2020). Such asymmetry of intentions makes the parties dichotomous utility maximisers (Jensen and Meckling 1976). The dealership's principal-agent nature endows participants with discretionary behaviour allowing them to behave opportunistically. Thus, stemming from the theoretical framework of Sadeh and Porath (2020), the assumption is that the DMU and the dealer could adopt either a *consummate* or *perfunctory* behaviour while performing their obligations. Acting perfunctorily the parties undermine the contract's win-win spirit, maximising their individual utility and risking disrupting the partnership. A consummate strategy instead denotes the parties' commitment to abide by the agreement and it comes at an individual cost (Sadeh and Porath 2020, 744).

Acting consummately, the DMU designs a partnership balancing benefits with obligations, and accounts for the dealers' preferences while shaping the debt management strategy (World Bank and International Monetary Fund 2001, 175; World Bank 2010a; Sadeh and Porath 2020, 743).[8] Conversely, a perfunctory DMU does not make the partnership attractive for the industry and could formulate the debt

[8] E.g., issuing debt securities with a maturity profile preferred by the industry (Sadeh and Porath 2020, 743).

management strategy without interfacing with the dealers (World Bank 2010a; Sadeh and Porath 2020).[9]

On the other hand, a consummate dealer regularly participates in government debt auctions and/or fosters the secondary market to the extent required by the dealership. Instead, behaving perfunctorily, the dealer does not commit to the partnership's obligations and could engage in fraudulent schemes posing a threat to the integrity of fixed income markets and the reputation of the government (World Bank 2010a; NTMA 2021a).

The dealership's self-enforcing nature, along with the presence of institutional room for opportunism result in it being modelled as a prisoners' dilemma – see Figure I-2.

Figure I-2. The dealership as a prisoners' dilemma in normal form

		Dealer	
		Consummate	Perfunctory
DMU	Consummate	+2, +2	0, +3
	Perfunctory	+3, 0	+1, +1

Source: Author's own illustration

Figure I-2 illustrates the players' strategic interaction in matrix form. The actors have a strategy set including two actions: either behaving *consummately* (cooperate) or *perfunctorily* (deviate). Payoffs take ordinal values and the outcome entailing the optimal allocation of resources is for both parties behaving consummately – i.e. focal Pareto optimality (Tadelis 2013). In the game's one-shot version, the Nash equilibrium corresponds to perfunctory behaviour – i.e. *(Perfunctory, Perfunctory)*. However, being a relational contract, the prisoners' dilemma repeated version is best apt at describing the dealership. Assuming the parties committing to initial cooperation, in case of unilateral deviation players could retaliate by adopting three strategies: (*i*) grim trigger,[10] (*ii*) tit for tat,[11] or (*iii*) limited punishment, according to game theory (Tadelis 2013).

[9] This opportunistic behaviour could imply the support of the incumbent government's re-election horizons (Sadeh and Porath 2020).

[10] A strategy according to which, upon counterparties' deviation, the parties will defect cooperation forever (Tadelis 2013, 198).

[11] See (n 7).

In a dealership, the DMU retains the right to punish a perfunctory dealer by temporarily excluding it from the partnership or its related benefits. In 2015 the Belgian DMU removed the status of dealer from Deutsche Bank for failing to abide by the DMU's evaluation criteria – e.g., low performance in government securities auctions (Reuters 2015). In 2019, following the French financial regulator's conviction for market manipulation (Autorité des Marchés Financiers 2019), the French DMU temporarily quit its dealership with Morgan Stanley allowing the latter to comply with remedial measures (Agence France Trésor 2020). By the same token, the Irish DMU (NTMA) excluded the dealer Davy for engaging in fraudulent activities (NTMA 2021a; Reuters 2021).

The dealer could punish the DMU for perfunctory behaviour as well. Since industry professionals consider dealerships unprofitable (Dunne 2007; Global Capital 2019; Preunkert 2020b), a dealer bank might leave in case the fiscal agent does not intervene outweighing the losses (World Bank 2010a). Another reason triggering the dealer to quit is the DMU adopting an opportunistic behaviour favouring the government's political interests (Sadeh and Porath 2020). According to practitioners, this strategy would cause the government a loss of bargaining power towards the dealers. Such a course of action would lead to the formation of a restricted network of powerful banks imposing their preferences over the formulation of the debt management policy (Harkness 2006; Jeal 2016).

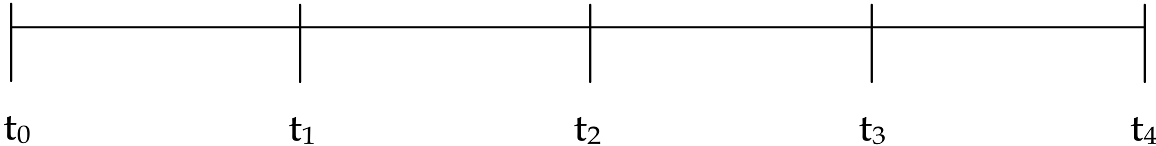
4.2 The role of exogenous factors

As the dealership's cyclical outcomes depend on uncertainty over the state of the world (World Bank 2010a; Sadeh and Porath 2020), while performing, the parties must deal with the effect of factors beyond their control. Costs of regulations, volatility in sovereign debt markets, low level of interest rates, and fiscal shocks all negatively affect the dealers' profits (Missale 1999; World Bank 2010a; Bloomberg 2015; Global Capital 2016). As highlighted by the financial turmoil triggered by the COVID-19 pandemic, a large share of dealers left the partnership due to sovereigns' increasing borrowing needs along with low levels of interest rates that made it riskier to allocate bonds in the secondary market (Reuters 2020; Financial Times 2020).

On the other hand, exogenous factors affecting the government's borrowing costs are the level of interest rates, inflation, and volatility in sovereign debt markets (Missale 1999). As the parties are framed in dichotomous business models, if the state of the economy reveals being favourable for one party, this will be adverse for the counterparty, and vice versa. For instance, in a world with low interest rates, the dealers will yield lower profits at the advantage of the DMU which would benefit from lower borrowing costs.

As the partnership's outcome depends on future realisations of state of the world verifiable *ex post*, the DMU-dealer strategic interaction could be modelled as per a complex contracting game, where nature affects the parties' payoffs (Brown, Potoski, and Van Slyke 2010) – see Figure I-3.

Figure I-3. Timing of the complex contracting game



Source: Author's own illustration

Figure 3 illustrates the timing of the game, consisting of the following rounds:[12]

- At t_0 the parties enter the dealership
- At t_1 the parties select their strategies
- At t_2 *nature* selects the state of the world
- At t_3 the payoffs are revealed
- At t_4 the players could retaliate to opportunistic behaviour or resume at t_1

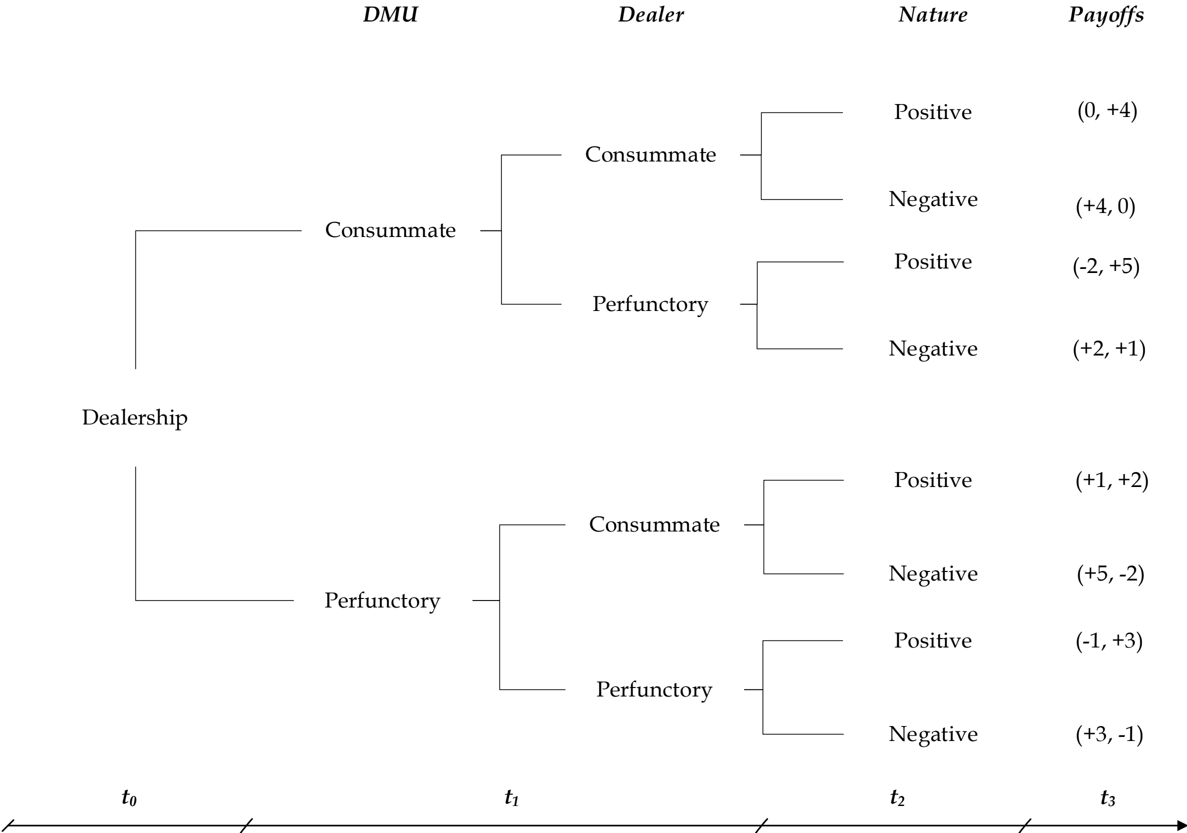
Where, rounds t_1 and t_2 could be swapped, as *nature* could reveal the state of the economy prior to the parties' moves. The assumption is that the parties' interaction is cyclical, therefore as the payoffs are distributed the interaction either resumes from t_1 or generates a retaliation which could potentially disrupt the partnership. In real-

[12] The timing of the game abides by the existing literature theoretically describing contracts for complex products (Brown, Potoski, and Van Slyke 2010).

world terms, each interaction cycle corresponds ideally to the time-frame spanning from the yearly approval of the debt management strategy,[13] to the end of the calendar year where stakeholders can infer the profitability of the partnership from business reports.

A positive state of the world for the dealers implies an ideal economy with high interest rates and light regulations. If nature is favourable for the industry, it is adverse for the government, and vice versa. Reflecting such assumptions in the payoffs' structure,[14] when nature is *positive* (for the industry), the dealers gain two units of payoff more at the expense of the DMU – see Figure I-4. By the same token, when the state of the world favours the fiscal agent (i.e. nature is *negative*), the latter obtains two units of payoff from the industry.

Figure I-4. The dealership as a complex contracting game



Source: Author's own analysis

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[13] Documents outlining the DMU's debt management strategy are available on institutional websites, see for instance (Ministry of Finance of the Czech Republic 2022; UK DMO 2022).

[14] It takes the prisoners' dilemma from Figure I-2 as a starting point.

As depicted in Figure I-4, although both parties adopt a consummate strategy, they might suffer from a lower payoff due to *ex post* realisations of the state of the economy. Given its dependence on global capital markets, the fiscal agent might have the incentive to re-adjust the payoff structure biased by nature in favour of the industry, thereby preventing the latter from adopting a perfunctory behaviour.

Due to the dealers' role of dominance in the partnership turning it into a principal *de facto*, the assumption is that the industry might expect the DMU to cope with its losses. This potential scenario is strictly connected to the issue of moral hazard inherent in the dealership: given the sovereign's funding dependence on capital markets, the dealers have reason to believe that the government will always rely on them regardless of their behaviour (World Bank 2010a, 9).

The dealership's flexible contractual nature allows the parties to re-negotiate benefits and obligations, as exogenous factors reveal (World Bank 2010a, 14). Therefore, whilst developing their strategy, the parties must account for the state of the economy as it affects their payoff structure. Significantly, the DMU must update its issuance strategy and awarding policy to maintain the dealership's attractiveness, as economic fundamentals evolve *pari passu*. For example, in a world with low interest rates and rising borrowing needs, the DMU might opt to shape its policy according to the industry's preferences. In particular, the fiscal agent could provide the dealer with benefits without relying on evaluation criteria, an opaque area of governance (World Bank 2010a, 32).

Although such behaviour would foster reciprocity, guaranteeing the government ongoing access to capital markets, it might trigger negative externalities for taxpayers. As per the theory of *shading* (Hart and Moore 2008), the DMU would transfer a share of its own payoff to the dealer, nudging the latter to perform. Explaining how such contingency would come to fruition, the theory of regulatory gift provides a feasible framework (Browne 2020). The argument posits that the DMU would implement a strategy presented to be beneficial for the public good, revealing instead to be in line with the industry interest. Supporting this claim, the upcoming section outlines the DMU's areas of governance wherein this *gift* could be exchanged and discusses policy implications.

5. Agency costs and policy implications

Drawing on the analysis of the parties' micro foundations, the upcoming section provides an overview of the agency costs potentially arising from the dealership, accompanied with policy solutions mitigating those. Entering a relational contract with the financial industry, DMUs must account for bonding and monitoring costs. Significantly, the analysis argues that the governance of the dealers' benefits provides the parties with institutional room to enter collusive schemes. Addressing agency costs, this section envisions policy solutions calling for enhanced transparency and supervision.

5.1 Bonding costs

Within the economy of the agreement, the DMU covers the pivotal role of providing the industry with pecuniary and non-pecuniary benefits fostering the dealership's attractiveness (World Bank 2010a). As highlighted by the theoretical framework in Section 4, the parties must develop their strategy accounting for the state of the economy, as it ultimately affects their utility profile. Being promoter of the partnership, the DMU must update its debt management strategy and awarding policy in function of the realisations of the state of the world. Due to the fiscal agent's dependence on the industry, in case of increasing borrowing needs, the former might find itself in a position requiring to incur additional bonding costs which would prevent the latter from behaving perfunctorily.

Given financial markets' bargaining power and focal point in modern public finance (Blyth 2013; Streeck 2014), the dealers could turn from agents to principals and demand the DMU to act in their own interest in exchange for ongoing access to capital markets (Global Capital 2019). Such a reversal of the original principal-agent relationship would constitute the risk premium that the government has to pay for its heightened reliance on financial markets.

Backing the realisation of such a collusive scheme, the DMU could leverage upon lack of transparency in its awarding policy. In this regard, the World Bank describes the criteria for evaluating the dealers' performance as opaque and lacking disclosure (World Bank 2010a, 32). Constituting the main rationale for assigning the awards,

limited transparency in such area of governance might leave institutional degrees of freedom for arbitrary decision-making. As highlighted by recent cases involving syndicated deals and derivative contracts, the governance of the dealers' benefits hosts a black-box which leaves room for potential collusive transactions to occur.

5.1.1 Syndications

As revealed by a recent case involving syndicated auctions (Stride 2020), the UK DMU does not have a clear cut rationale for awarding the dealers with syndications and computing related fees. In 2020 a member of the House of Commons Treasury Committee, Mel Stride, alleged that with regard to syndicated auctions, the DMU did not perform in the interest of taxpayers and prompted an investigation (Stubbington 2020). Among others, the parliamentary inquiry asked for the criteria for calculating syndicated fees. The UK DMU chief executive, Robert Stheeman, rejected Stride's allegations and did not disclose a rationale underpinning the fees. He stated that these reward the dealers for providing the technological infrastructure which supports the allocation of government debt securities (Stheeman 2020). As emerged in an interview with the UK DMU Head of Dealing, Martin Duffell, the fees would be set according to a benchmark adopted by DMUs across the EU, whose content is confidential (UK DMO 2021a).

From the 2008 Global Financial Crisis to 2020, the UK DMU paid syndicated fees amounting to €599 million (Stheeman 2020). Transparency in the DMU's calculation of the fees is crucial for supporting audit organs monitoring over the fiscal agent's compliance with its remit of acting in the interest of taxpayers.

5.1.2 Derivative contracts

The dealers' appointment as counterparties in derivative deals is another category of bonding costs that hosts 'grey' areas of governance. Derivative contracts have been used by DMUs for window dressing purposes, a controversial public accounting technique allowing the subscriber country to manipulate the level of debt-to-GDP ratio (Piga 2001). Widely implemented by Greece and Italy for supporting their access to the European Economic and Monetary Union (Lagna 2016; Piga 2001), derivative deals come at a cost for subscribers as the dealers yield a safe source of cash flow from the

government (Risk 2003). According to scholars and industry magazines (Trampusch 2015, 122; Risk 2003), evidence on the details of derivative deals is highly confidential as the parties deserve the right to negotiate in meetings that happen behind closed doors. Risk (2003)'s investigation highlights how derivative instruments could act as a mechanism allowing the dealers to charge DMUs for taking excessive credit and market risk exposure.

An Italian case that saw the DMU entering a series of derivative contracts with the dealer Morgan Stanley between 1995 and 2005 confirms such anecdotal evidence (Reuters 2017). In 2017 the Italian Court of Accounts alleged that the derivative contracts were designed to overly favour the counterparty by embedding those in an early termination clause (Corte dei Conti 2019).[15] Upon the 2009 European debt crisis, rating agencies downgraded Italy and Morgan Stanley exercised the clause which caused the state a loss of €2.7 billion (Corte dei Conti 2019, 8). Although the process led to the acquittal of the public debt managers involved for lack of jurisdiction (la Repubblica 2022), the case remains highly controversial as it highlights how the DMU and the industry could enter collusive transactions. Depending on the dealers' expertise for effective risk management and allocation of sovereign debt, the DMU could accept to design unfavourable clauses making the partnership attractive.

According to the government's degree of reliance on capital markets, the industry might leverage upon its infrastructural power (Braun 2020; Preunkert 2020a; Rommerskirchen and van der Heide 2022) to induce the DMU to engage in derivative deals, ultimately turning the latter from principal to agent. Due to increasing borrowing needs, the government would have the incentive to enter derivative contracts with the industry to prevent it from leaving the partnership.

5.1.3 Policy implications

Mitigating the risk for potential collusive behaviour, the DMU shall disclose to audit bodies (e.g., parliamentary committees) the criteria underpinning the dealers' evaluation as these are the main quantitative rationale for governing benefits. Being

[15] Clause endowing a party with the right to exercise the early termination of a derivative contract. The consequences of early termination are regulated by Section 6 of the International Swaps and Derivatives Association (ISDA) Master Agreement (ISDA 2002).

the focal pecuniary incentive triggering the dealers to perform (World Bank 2010a; AOFM 2019), DMUs around the world shall disclose to supervisory entities the methodology underpinning the calculation of syndicated fees.[16]

Concerning derivative deals, the DMU should consider to disclose the clauses of the agreement and produce minutes of meetings concerning the negotiation process with the dealers. The collected information would support audit committees' supervision and evaluation of the potential risks and benefits from entering derivative contracts with the industry. For audit bodies, the proposed rationale is that DMUs shall sign derivative deals only if strictly necessary – e.g., hedging currency or interest rate risk – and not for window dressing purposes or as a means to deal with rising outstanding debt levels. Indeed, highly indebted countries entering derivative contracts could even worsen the sustainability of their debt (Trampusch and C. Spies 2015; Piana 2017).

As a downside of implementing disclosure rules, policymakers shall consider that these might have a negative effect on the economic attractiveness of the dealership. In the prospect of lowering profits triggered by disclosure policies, an increasing number of dealers might consider quitting the partnership, restricting government funding options. Avoiding a scenario of lower liquidity, policymakers shall negotiate with the industry over potential solutions and reach a compromise.

The proposal for syndications is to set a key for the calculation of the fees, for instance, directly proportional to the issued amount. Concerning derivative contracts, the situation is more complex: upon screening minutes of consultations and exchanging views with public debt managers, audit bodies shall weigh the costs and benefits of entering the deal on a case-by-case basis.

5.2 Monitoring costs

Coping with the industry's potential perfunctory behaviour, the government shall focus on an efficient design of the primary dealer system and enhance the supervision of fixed income markets. As highlighted in Section 2, a downside of the framework is that a concentrated market structure would increase the likelihood for dealer-dealer

[16] As emerged in the interview with the UK DMU, such information is commercially sensitive. Hence, this shall be disclosed to the national body in charge of supervising the DMU in the jurisdiction of interest – e.g., a parliamentary committee (Trampusch and Gross 2021).

collusion schemes to occur (Arnone and Ugolini 2005). Addressing this risk, DMUs with a restricted number of dealers shall consider to foster competition by adding more market participants (Arnone and Ugolini 2005).

Enhancing monitoring activity in fixed income markets is another tool that would support mitigating agency costs. As pointed out in a code of conduct for the participation in fixed income markets issued by the Fixed Income, Currencies and Commodities (FICC) Markets Standards Board,[17] the dealers have a number of conflicting interests in carrying out their task which could negatively impact the DMU's risk management and borrowing costs (FICC Markets Standards Board 2020, 7–8). Due to the size of the market for sovereign debt and countries' increasing borrowing needs (IMF 2022a; Rommerskirchen and van der Heide 2022, 1), it is necessary to guarantee the integrity of fixed income markets. While evidence for dealer-dealer collusion in auctions is available from the early days of the primary dealer system (Rieber 1964), fraudulent behaviour in form of market manipulation and collusion in the secondary market has been identified only recently (Autorité des Marchés Financiers 2019; European Commission 2021; 2022; FCA 2022). As DMUs' mandate does not usually entail market supervision,[18] public debt managers shall coordinate with national and supra-national regulatory authorities to monitor critical risk hotspots. To this end, public debt managers with heightened expertise in fixed income markets shall: (*i*) schedule recurring meetings with regulatory authorities discussing potential challenges, and (*ii*) produce reports on the dealers' behaviour in auctions and syndications.[19]

[17] The organ is part of the Financial Markets Standards Board (FMSB), a global standards body, see (FICC Markets Standards Board 2020, 1).

[18] Outliers are Denmark, Iceland, Norway and the US, where the DMU is located within an authority endowed with supervisory power (i.e. the central bank) (Currie, Dethier, and Togo 2003).

[19] Regarding the House of Commons Treasury Committee investigation in syndicated auctions, Mel Stride asked the UK DMU whether the dealers' market behaviour was in the interest of taxpayers (Stride 2020). In his reply, the CEO, Robert Stheeman, states that the DMU is not in charge of market supervision (Stheeman 2020).

6. Conclusion

Designing a theoretical framework examining the DMU-dealer strategic interaction, this essay provides an overview of the agency costs inherent in the dealership. The study's main insight is that the agreement's contractual nature allows the DMU to adapt its debt management strategy and awarding policy in function of the state of the economy. Although such a feature embeds the framework in flexibility, the analysis argues that it might trigger public-private collusion schemes which could potentially lead to negative externalities for taxpayers. Such contingency would occur given the DMU's dependence on global capital markets and the presence of 'grey' areas in the awarding policy of the dealers' benefits.

Under situations wherein the dealers suffer from heightened exposure risk, the study argues that DMUs would have the incentive to enter collusive schemes with the industry which would induce the latter to perform. Such a scenario would occur since DMUs benefit from degrees of freedom governing the industry's awards, as: (*i*) the dealers evaluation criteria are opaque, (*ii*) the syndicated fees' calculation is undisclosed, and (*iii*) negotiations over derivative contracts take place behind closed doors. Testing the essay's argument, future research shall extend the work towards a positive dimension by systematically collecting evidence of the parties' behaviour across states of the economy and government's borrowing needs.

Mitigating agency costs, the study suggests to design and implement disclosure rules enhancing transparency of the DMU's awarding policy. In particular, given the pivotal role of syndicated auctions and derivative contracts in making the partnership attractive, audit bodies shall perform consummate monitoring over such areas of governance. Additionally, as the potential cost of mismanagement of such operations could be significant,[20] policymakers shall consider introducing transparency policies.

Advancing the still nascent literature in the political economy of sovereign debt management (Lemoine 2013; 2016; Preunkert 2020a; Sadeh and Porath 2020; Rommerskirchen and van der Heide 2022), the study's overarching purpose is to provide policymakers with strategic insights predicting the DMU-dealer interaction.

[20] As already mentioned in Subsection 5.1.1, from the 2008 Global Financial Crisis to 2020, the UK DMU paid syndicated fees amounting to €599 million (Stheeman 2020).

Significantly, the essay extends the theoretical framework developed by Sadeh and Porath (2020), by deepening the analysis of the dealers' micro foundations. Moreover, describing how primary dealerships could consciously turn the government from principal to agent, this study contributes to the literature in the infrastructural power of finance (Braun 2020). It also reinforces recent papers that apply such theory to sovereign debt management (Rommerskirchen and van der Heide 2022).

As developed and developing countries are experiencing times of overlapping crises which have triggered higher borrowing costs and needs (Mackenzie and Sahay 2022; Financial Times 2022; IMF 2022a), it is vital that the government and financial markets engage in a viable relationship in order to enhance the sustainability of sovereign debt. Within this peculiar institutional context, policymakers shall monitor the parties' behaviour in the areas of governance identified in this study with the purpose of curbing negative externalities for taxpayers. In this regard, future studies shall carry out cost-benefit analyses assessing whether the costs of collusion are negligible with respect to the service offered by the dealers.

Casting light on power asymmetries and potential idiosyncrasies inherent in the institutional setting framing the dealership, the expectation is to trigger studies thoroughly analysing how the industry could establish avenues of influence in DMUs – e.g., lobbying activity and revolving doors (Silano 2022a).[21]

[21] See the upcoming Essays II and III.

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Appendix A

Interview with the UK Debt Management Office

- In your opinion, what are the main advantages and disadvantages of having a primary dealer system in force?

- In a strategic meeting over the formulation of the debt management policy, among the stakeholders' preferences, to what extent does the primary dealers' position affect the policy outcome? Generally, are the positions of the dealers and DMO aligned? Would you be so kind as to make some examples?

- According to the International Monetary Fund (IMF), the World Bank, and the Organisation for Economic Co-operation and Development (OECD), the dealers' professional logic (i.e. financial industry's approach to tasks) is present in organisations with the mandate of raising public finance – DMO, Ministry of Finance, Central Bank. Is it important that the debt management task is carried out implementing the industry's expertise? Why?

- When recruiting new employees, is it important for the Treasury to have candidates who nurtured expertise at primary dealers? Why?

- How are the dealers' privileges set? Are these the results of negotiations between the DMO and dealers? If yes, would you be so kind as to describe the related negotiation process and if it must abide by regulations?

- According to what rationale does the DMO decide when to award the dealers with privileges? And besides, how do the DMO and the dealer reach an agreement over the fees to apply for a syndicated auction? Is there any official rationale underpinning the fees' setting process?

II

Revolving doors in government debt management*

Abstract

This essay compiles a longitudinal data set describing the career trajectories of 655 former and in office public debt managers at national debt management units (DMUs) across 27 OECD countries. Relying on sequence analysis and optimal matching, the study shows that the sample's most diffused career paths include transitions across the financial industry, professional services and public finance. Significantly, the analysis identifies a revolving door with respect to the dealers of government securities, a phenomenon gaining momentum among senior public servants and financial expertise-intensive positions. Examining DMUs' professional ties by drawing on network science, the study provides empirical evidence that the dealers are the most influential actors shaping government debt management, along with transnational standard-setters. Beyond fostering agency professionalisation and financial market's trust, the essay argues that the revolving door could exacerbate the risk of industry capture and collusion inherent in the DMU-dealer agency relationship.

Key words: public debt managers, careers, sequence analysis, optimal matching, social network analysis, global networks, revolving doors, dealers, public finance, financialization

JEL classification: H63, G18, H74, H10, P16

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* Data was gathered between January and October 2021; the cut-off date for public officials' career information is 31st October 2021. Qualitative information on the revolving door phenomenon was gathered through surveys submitted to the Australian and Italian DMU, and an interview with the UK DMU Head of Dealing, Martin Duffell.

An earlier version of this essay was published in the Institute of Law and Economics Working Paper Series (Silano 2022a).

1. Introduction

The expression 'revolving door' denotes the career flow of public officials to the private sector, and vice versa. Scholars have been examining this socio-economic phenomenon mostly in government regulation, in contexts ranging from financial markets (Lucca, Seru, and Trebbi 2014; deHaan et al. 2015) and communication (Gormley 1979; Cohen 1986), to public utilities (Salant 1995) and central banking (Adolph 2011). Yet research on agencies beyond the mandate of regulation is still minimal, and limited to public procurement in the Brazilian health system (Barbosa and Straub 2017) and Japanese bureaucracy (Asai, Kawai, and Nakabayashi 2021). Filling such a gap, this essay delivers an empirical account of the revolving door in government agencies in charge of issuing and managing sovereign debt – debt management units (DMUs).

Within the process of financialization of the state, since the early 1980s, sovereigns have been overhauling the management of government debt by increasingly relying on financial economics and fostering institutional independence from the electoral cycle (Datz 2008; Lemoine 2013; 2016; Fastenrath, Schwan, and Trampusch 2017). DMUs are executive branches formulating the debt management strategy and issuing sovereign debt by running competitive auctions (Currie, Dethier, and Togo 2003). Their mandate consists in minimising long-run government funding costs, constrained to prudent risk management (Blommestein and Turner 2011). Fulfilling their remit, DMUs have been establishing primary dealer systems consisting in partnerships with national and global banks – i.e. the 'dealers' (Arnone and Ugolini 2005; World Bank 2010a).

The umbrella term 'dealers' denotes two categories of financial institutions: the 'primary dealers' and ancillary market makers (the 'secondary dealers'), where the former holds the right of bidding at government debt auctions (Arnone and Ugolini 2005), and the latter to exclusively participate in the secondary market (MacKenzie et al. 2020; FICC Markets Standards Board 2020, 4). National DMUs appoint their partners via a self-enforcing agreement – either a primary dealership or an *ad hoc* appointment (World Bank and International Monetary Fund 2001, 168; Arnone and Ugolini 2005). Such institutional features make the DMU-dealer partnership an agency

problem framed in a relational contract requiring the parties to interact preserving the agreement's mutual profitability (Sadeh and Porath 2020; World Bank 2010a, 27). Due to path dependence, the parties are locked up in the process of reaching a compromise, under the DMU's guidance balancing the dealers' benefits with obligations (World Bank 2010a).

Stemming from the above-outlined *quid pro quo* relationship, this essay examines the professional ties linking DMUs and the dealers providing a systematic empirical account of the revolving door, a phenomenon whose evidence is still anecdotal (Sadeh and Porath 2020, 745; Trampusch 2019, 15). The overarching purpose is to draw policymakers' attention to the phenomenon as it could constitute a potential risk for the integrity and impartiality of government debt management.

To this end, the essay collates a unique longitudinal data set describing the career path of 655 in office and former public servants at national DMUs located in 27 OECD countries. The research design allows both to deliver a snapshot of debt managers' professional background at the time of data gathering and explore the potential motives triggering the career moves. Empirically analysing career trajectories, the methodology draws on sequence analysis and optimal matching (Abbott and Tsay 2000; Gabadinho et al. 2011). Additionally, social network analysis (Jackson 2010) allows the study to identify the most professionally influential actors among DMUs and executive public debt managers.

Overall, the most recurring career trajectories include transitions across the financial industry, public finance and professional services. In particular, 46% of the sample has a background at the dealers of government securities, 43% moved to the dealers upon resignation, and 17% flew in and out of the revolving door. The phenomenon gains momentum among senior public servants and financial expertise-intensive positions. Network science confirms that the most influential institutions in the professional network are the dealers along with transnational standard-setters in government debt management – e.g., the International Monetary Fund (IMF), the World Bank, and the Organization for Economic Co-operation and Development (OECD).

Drawing on cases, the study argues that although the revolving door enhances expertise and financial market's trust, it could exacerbate the risk of industry capture

and collusion inherent in the DMU-dealer agency relationship. Furthermore, the high degree centrality of debt management epistemic communities suggests that these have been crucial at guiding the sound implementation of debt management reforms.

The remainder of the essay is the following. Section 2 provides a review of the literature. Then, Section 3 outlines the empirical strategy, Section 4 carries out the analysis of career data and Section 5 social network analysis. Hence, Section 6 engages in a discussion, and Section 7 concludes sketching avenues for future research and potential policy implications.

2. Related literature

Although social scientists have been examining the revolving door since the 1950s (Bernstein 1955), it is in the wake of the 2008 Global Financial Crisis that the phenomenon gained utmost policy salience (OECD 2009). The literature on the political economy of financial regulation has focused on the analysis of career transitions of lobbyists and regulators to assess the Wall Street-Washington corridor (Baker 2010; Bertrand, Bombardini, and Trebbi 2014).

Within a less circumscribed scope, the dynamic has been examined in institutional contexts ranging from central banking (Adolph 2011; Wirsching 2018) and international financial governance (Seabrooke and Tsingou 2020), to international tax governance (Christensen 2021), investment arbitration (Langford, Behn, and Lie 2017) and lobbying (LaPira and Thomas 2014).

Overall, studies investigating the causes and effects of the revolving door have been focusing on testing the capture hypothesis (Lucca, Seru, and Trebbi 2014; Cornaggia, Cornaggia, and Xia 2016), overlooking the phenomenon's nuances (Zinnbauer 2015; Seabrooke and Tsingou 2020, 19; Rex 2020; Chalmers et al. 2021).

2.1 The *exit* side

Investigating the potential determinants and effects of the exit side of the revolving door, scholars have been drawing on the rent-seeking and regulatory schooling hypothesis. The former argues that public officials would bias their activity in favour of the industry to increase their likelihood of being hired (Dal Bó 2006); and, according

to the latter, regulators would have the incentive to be strict towards the regulatee in order to signal expertise (Che 1995; Salant 1995; Lucca, Seru, and Trebbi 2014).

The literature testing the rent-seeking hypothesis does not deliver conclusive evidence (Zheng 2015). Research shows that public officials tend to perform lax regulatory activity in prospect of a lucrative position at regulatees (Spiller 1990). Relying on an empirical model, deHaan et al. (2015) provide evidence that enforcement lawyers at the Securities and Exchange Commission (SEC) tend to be lenient towards the financial industry to increase the likelihood of a lucrative post-public appointment. By the same token, Makkai and Braithwaite (1992) identify low regulatory toughness among Australian nursing home inspectors. Beyond government regulation, Cornaggia, Cornaggia, and Xia (2016) find that incumbent credit analysts tend to favour their prospect employer with advantageous ratings. Focusing on Chinese public officials in charge of managing state's subsidies, Li (2021) proves that post-term's career concerns bias the allocation of resources whilst in office.

Conversely, the work by Lucca, Seru, and Trebbi (2014) provides empirical evidence supporting the regulatory schooling hypothesis. Stemming from the theoretical work by Che (1995) and Salant (1995), collecting a data set tracing careers of US banking regulators, the authors show that public-private career flows are moved by labour markets' factors rather than *quid pro quo* motives (Lucca, Seru, and Trebbi 2014).

Beyond testing the capture hypothesis, scholars argue that the industry is interested in public officials as they provide precious assets such as expertise and a network of professional contacts (Vidal, Draca, and Fons-Rosen 2012; Bertrand, Bombardini, and Trebbi 2014; Yates and Cardin-Trudeau 2021). Setting their studies in the US Congress, LaPira and Thomas (2014) and Bertrand, Bombardini, and Trebbi (2014) show that revolving door lobbyists are mostly interested in maintaining connections with former politicians to increase their effectiveness at influencing the legislative process for clients.

2.2 The *entry* side

Assessing the effects of public officials' industry background on governance, Gormley (1979) and Cohen (1986) show that entry revolvers within the Federal Communications Commission (FCC) tend to bias their regulatory activity by

favouring their former employer. By the same token, Makkai and Braithwaite (1992) show that senior regulators with prior experience at regulatees exhibit less propensity towards enforcement.

In the wake of the 2008 Global Financial Crisis, scholars have argued that regulators with a background in the financial industry might affect policymaking in the interest of the latter due to cultural capture (Johnson and Kwak 2010; Kwak 2013). Borrowing from the theory of intellectual capture (Abbott 1988), Kwak (2013) argues that entry revolvers would favour the industry due to cultural and sociological factors, rather than by rent-seeking objectives. He identifies three mechanisms through which a regulator's professional background could affect his office: (*i*) identity, (*ii*) status and (*iii*) relationship (Kwak 2013, 13). Respectively, regulators would be more likely to support policy positions advanced by individuals (*i*) belonging to their in-group, (*ii*) displaying high social status, and (*iii*) located in their professional network. Empirically testing such a theoretical framework, Veltrop and de Haan (2014) show that financial supervisors' tenure at regulatees tend to reduce regulatory effectiveness.

Kwak (2013)'s explanation of the revolving door phenomenon is close to the sociological theory of linked ecologies by Abbott (2005), according to which individuals provide their incumbent employer with expertise gained from previous experiences in different industrial sectors (i.e. *ecologies*). Revolvers would influence the entry organisation through the creation of 'hinges' and 'avatars'. The former denotes shared conceptions common to the industry and the public sector, and the latter captures the revolver's tendency to export its professional logic to the entry organisation. Drawing on linked ecologies and intellectual capture, Seabrooke and Tsingou (2020) examine the revolving door phenomenon in the context of international financial governance. The authors argue that high-ranking public officials with a background in the financial sector have the power to shape transnational regulatory issues. By the same token, focusing on members of the Portuguese government, Louçã and Ash (2018) claim that revolvers with a background in the industry tend to ease the implementation of neoliberal policies – e.g., deregulation, liberalisation and privatisations.

3. Data and empirical strategy

3.1 Sample jurisdictions

The presence of a primary dealer system constitutes the necessary condition for selecting the sample jurisdictions. Apart from Luxembourg, Costa Rica and Switzerland, OECD countries rely on the dealers in the issuance and distribution of sovereign debt.[1] Due to limited career data availability, the study includes 27 jurisdictions[2] featuring DMUs framed in a diverse institutional setup and discretionary power – for a list of the governmental units, see Table II-A1, Appendix A.

Austria, Germany, Greece, Hungary, Ireland, Portugal, Slovakia, Sweden, and the UK established a DMU separate from the MoF – debt management office (DMO) (Currie, Dethier, and Togo 2003); in particular, Austria, Germany, Hungary, and Slovakia opted for outsourcing the task to a limited liability company fully owned by the state. Instead, Australia, Belgium, France, the Netherlands, Poland, and New Zealand have an independent DMO located within the MoF (Currie, Dethier, and Togo 2003). The debt management task is carried out by specialised units within the Treasury in Colombia, Czech Republic, Finland, Israel, Italy, Japan, Slovenia, and Spain (Williams 2010). Institutional outliers are Denmark, Iceland, Norway, and the US wherein the DMU is part of the central bank (Currie, Dethier, and Togo 2003).

3.2 Sample public officials

Selecting sample public servants, the study focuses on positions involved in the management of government debt. Such criterion implies the exclusion of officials carrying out marketing or administration functions – e.g., information technology, security, human resources, and accounting (Williams 2010). Thus, objects of interest are those public servants operating in the following DMU's departments: the front office, the middle office, the general management, and auditing – see Table II-1. Such

[1] The presence of a primary dealer system is disclosed on the DMU's institutional website. See, for instance, the Agence France Trésor (AFT 2021b).

[2] Australia, Austria, Belgium, Colombia, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Poland, Slovakia, Slovenia, Spain, Sweden, the UK, and the US.

business units are respectively in charge of funding transactions, developing the debt management strategy, being accountable for the agency's operations, and internal supervision (Cosio-Pascal 2007, 8; Williams 2010). Additionally, the study includes internal auditors as they are in charge of monitoring and managing potential risks arising from the debt management strategy (Williams 2010, 14) and consultants as they cover an active role in innovating DMUs and guiding the implementation of debt management guidelines (Trampusch 2015; 2019).

Table II-1. DMU's positions of interest across business unit

Business Unit	Position
General Management	CEO
	Deputy CEO/Chairman/Director
Front Office	Trader/Portfolio Manager/Investor relations
Middle Office	Economist/Risk manager/Analyst
Back Office	Consultant/Lawyer/Advisor
Internal audit	President/Chairman of the Supervisory Board
	Member of the Supervisory Board

Source: Author's own analysis

Public debt managers' degree of communication with the dealers varies across departments and seniority. Traders communicate with the market makers' bond desk in real time (Cosio-Pascal 2007), and chief executive officers (CEOs) along with senior positions liaise with the dealers at quarterly and individual meetings exchanging views on capital market trends (World Bank 2010a; IPE 2014).[3] Lawyers and consultants interface with the industry representatives at variable intensity and for the execution of specialised projects – e.g., implementation of financial software packages (Fastenrath, Schwan, and Trampusch 2017, 273; Trampusch 2019, 14).

[3] For additional evidence, see the minutes of consultations of the UK DMU (UK DMO 2020).

3.3 Career data

Disclosure of public officials' identities and resumés is beyond the scope of freedom of information laws in most countries of the sample.[4] However, institutional websites usually provide a list of mostly high-ranking public debt managers,[5] which is the starting point for querying career information from the news,[6] social media (LinkedIn and Xing),[7] professional databases,[8] publicly disclosed resumés, and public laws.[9] An alternative strategy was to search the DMUs' pages on social networks to then retrieve employees' career data. Information availability varies across the seniority of positions. Given the role salience, data on the general management was gathered from the majority of the afore-mentioned sources. Professional databases, the news and social networks provided information on high seniority positions. Data on lower ranking public officials was extracted from social networks and in some circumstances the news. The sample amounts to 655 former and in office (275 and 380 respectively) public officials at the time of data gathering.

3.4 The dealers

Collecting the list of dealers, the study relies on strategies varying across jurisdictions and categories of financial institutions – i.e. primary or secondary dealers.

The dealers' composition is dynamic, as they, along with DMUs, deserve the right to withdraw from the public-private partnership (World Bank 2010a).[10] The study labels as 'dealers' those financial institutions which, at the time of data gathering, were

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[4] Outliers are the Czech Republic, Denmark, and Italy.

[5] See, for instance, the Austrian OeBFA (OeBFA 2021) and French AFT (AFT 2021a).

[6] Information queried through the database Factiva, a company owned by Dow Jones & Company, see Dow Jones (2021).

[7] Since career information submitted on social networks is a data typology self-reported by users and object of job-title inflation, a validity issue arises. However, trustworthiness of the sources is higher than surveys because it is cross-checked by the network of individuals who personally and professionally know the user (Coen and Vannoni 2020).

[8] Dafne (Bureau van Dijk 2021b), Amadeus (Bureau van Dijk 2021a), and Orbis (Bureau van Dijk 2021c).

[9] Laws containing debt managers' career information, see the case of Portugal Resolução do Conselho de Ministros n.º 24/2019, de 1 de Fevereiro (Presidência do Conselho de Ministros 2019).

[10] The primary dealers might consider exiting the dealership due to rising costs, burdensome regulation, and volatile fixed income markets (Global Capital 2016; Reuters 2016). Instead, the government could end a dealership in case the primary dealer would constitute a threat to the market for government securities (NTMA 2021a).

or had been market makers of sovereign bonds. The Association for Financial Markets in Europe (AFME) provides each financial year a list of primary dealers across the EU (AFME 2020). In the rest of the world, information has been retrieved from DMU's websites.[11] Institutions providing a historical archive of primary dealers are Italy (since 2001) and the US. Upon submitting a freedom of information request, the Austrian (from 2001) and the UK DMU disclosed also one.

Concerning information on secondary dealers, trading venues, regulators or DMU's websites provide a list of registered institutions. MTS Markets (Euronext) is the main exchange for government bonds issued in the EU and Israel. Additionally, the European Securities and Markets Authority (ESMA) and the Financial Conduct Authority (FCA) publish a constantly updated list for the EU and the UK (ESMA 2022; FCA 2022c). In Australia market makers' data is available on the DMU's website[12] and in the US along with Denmark, the primary dealers are the only authorised market makers.[13]

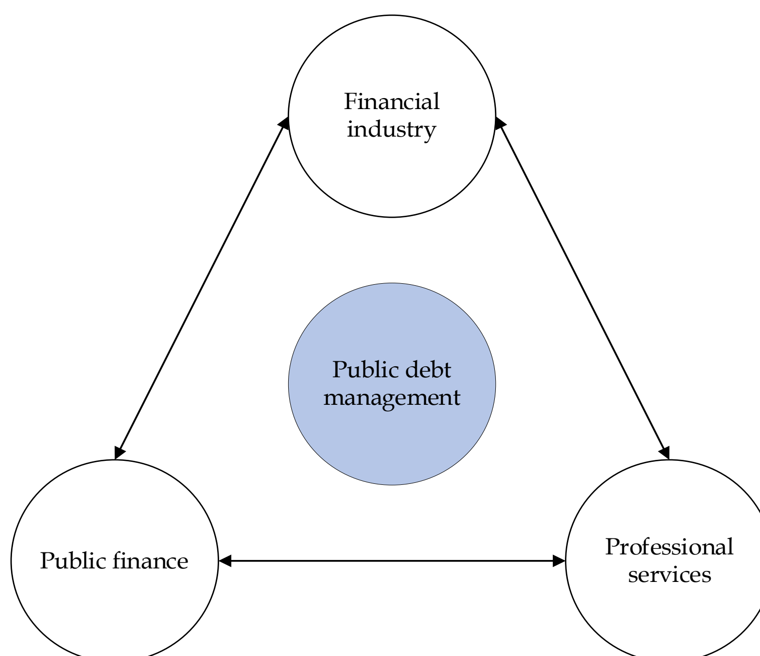
3.5 The longitudinal data set

Career information has been collated in a longitudinal data set which is a data typology apt at describing career trajectories (Ritschard et al. 2009).

The hand-coding stage informed that the most recurring public debt managers' career paths involve transitions across the following industrial sectors: financial markets, public finance and professional services - the three professional ecologies shaping government debt management (Abbott 2005), see Figure II-1. The data analysis section will highlight that although career transitions in academia are present these are largely dispersed.

[11] See, for instance, New Zealand (NZDMO 2021) and the US (Federal Reserve Bank of New York 2021).
[12] See the AOFM (2021b).
[13] In the US, an increasing trend is to rely on institutions specialized in high-frequency trading (MacKenzie et al. 2020).

Figure II-1. Public debt management's professional ecologies



Source: Author's own illustration

As shown in Table II-2, the public sector ecology has been split into three sub-categories. The career state 'public finance' denotes an appointment at central banks, treasuries, sovereign wealth funds, development banks, international financial institutions or national pension funds. The state 'public debt management' captures a career at DMUs.[14] Among other public sector institutions are regulatory entities, political institutions (e.g., the European Commission or a political party), lobby organisations, transnational think tanks (OECD), and diplomatic bodies.

The category 'financial markets' was split into four in order to distinguish between a career at a dealer or at a generic financial institution thus accounting for transitions across senior positions – e.g., senior trader, managing director, chief executive. The non-dealer financial institutions are commercial banks, insurance companies, rating agencies, the investment management industry, and private pension funds. Lawyers and consultants belong to the same category, as lawyers have particular 'disposition for professional empowerment' (Seabrooke and Tsingou 2020, 7). Academics are

[14] In jurisdictions where the DMU is located either within the MoF (i.e. Italy and Poland) or the central bank (i.e. Denmark, Iceland, Norway and the US), it has been checked whether public officials were employed at the debt management directorate.

associate researchers and professors either affiliated to research institutes or universities.

Since the majority of the sample belongs to the aforementioned macro categories, in order to embed the analysis in consistency, career states in underrepresented economic sectors have been merged in the same group – i.e. 'other'.

Table II-2. Career categories

Economic sector	Career state
Public Sector	Public Finance
	Public debt management
	Other
Financial markets	Employee (non-dealer)
	Senior position (non-dealer)
	Employee (dealer)
	Senior position (dealer)
Professional services	Lawyer/Consultant
Academia	Researcher/Professor
Other	Other

Source: Author's own analysis

4. Data analysis

The data set was split into three sub-samples aiming at analysing: (*i*) career backgrounds, (*ii*) post-office career destinations, and (*iii*) multiple in and out transitions from DMUs. Deploying first summary statistics, the analysis focuses on assessing the entity of the revolving door phenomenon across an organisation's functions and hierarchies.

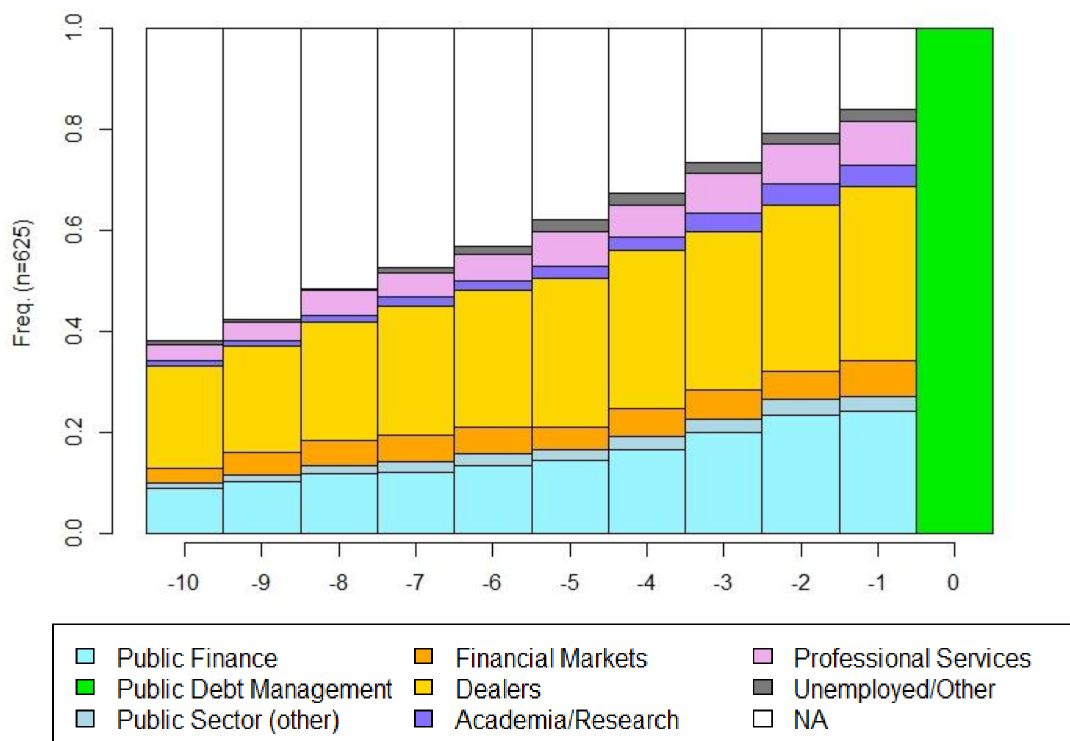
In carrying out the data analysis, the study draws on sequence analysis which is an established technique to examine career data concurrent with other studies on the revolving door phenomenon (Coen and Vannoni 2016; Peci, de Menezes Santos, and Pino Oliveira de Araújo 2020; Seabrooke and Tsingou 2020). The R package *TraMineR* provides useful tools for analysing longitudinal data sets – e.g., summary statistics, indexes, graphical illustrations (Gabadinho et al. 2011). Representing career transitions, the study relies on the *tempogram*, a tool supporting the illustration of longitudinal data (Peci, de Menezes Santos, and Pino Oliveira de Araújo 2020).

4.1 Summary statistics

4.1.1 The *entry* side

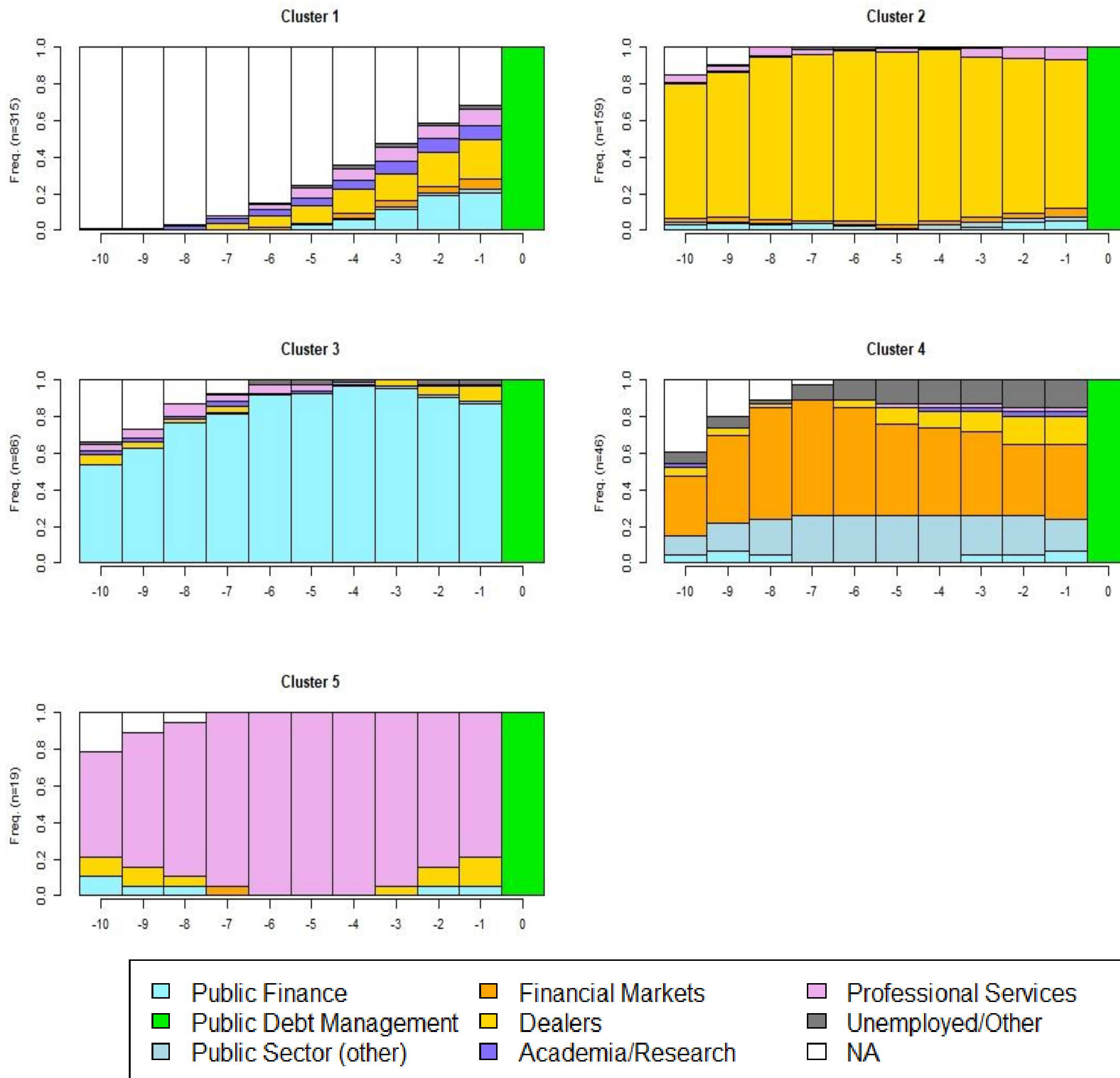
The plot in Figure II-2 illustrates the career state distribution of the sample in the ten years preceding the appointment as a public debt manager. The data includes backgrounds of public servants in office at the time of gathering as well as of former public servants. The tempogram provides graphical evidence that a background at the dealers is the most diffused across the sample. In the ten years prior to being appointed debt managers, the largest share of career sequences correlates to a long-lasting career at the dealers. Following this are public finance and to a lesser extent professional services and academia. The white area in correspondence of -1 is evidence that circa 20% of the sample did not have a working experience prior to the public appointment.

Figure II-2. Tempogram, career backgrounds of 625 public debt managers



Source: Author's own analysis

Figure II-3. Tempogram, 5 clusters of sample's career background



Source: Author's own analysis

Clusters have been computed according to the optimal matching algorithm included in *TraMineR* (Gabadinho et al. 2011). It groups the most similar trajectories, assigning a cost to each transition from one career state to another based on probability theory. Computing the likelihood of transitions across the sample, the results suggest applying a transaction cost of two – see Table II-B1, Appendix B.

Figure II-3 illustrates the five clusters grouping the most similar career backgrounds across the sample. Cluster 1 includes the majority of public servants (n = 315) either without any background or with a mix of experience in the public sector, dealers, professional services and academia. Cluster 2 (n = 159) sees the dominance of a career

background at the dealers, the third in public finance (n = 86), the fourth (n = 46) in financial markets (generic), and the fifth at professional services companies (n = 19).

Moving to summary statistics, Table II-3 informs that 46% of sample public debt managers worked at the dealers, 31% at public finance institutions, 19% at consultancy companies, 14% at generic financial institutions, and 11% in the academia (for a histogram of most frequent career backgrounds, see Figure II-B1, Appendix B).[15]

On average, prior to the public appointment, the sample spent circa six years working at the dealers, three in public finance, and around one at consultancies as well as at generic private entities in financial markets.

Table II-3. Most frequent career backgrounds across the sample (n = 625)

	Transitions	*Share*	*Count*
1	(Dealers) - (DMU)	46%	303
2	(Public Finance) - (DMU)	31%	205
3	(Professional Services) - (DMU)	19%	123
4	(Financial Markets) - (DMU)	14%	95
5	(Academia/Research) – (DMU)	11%	74

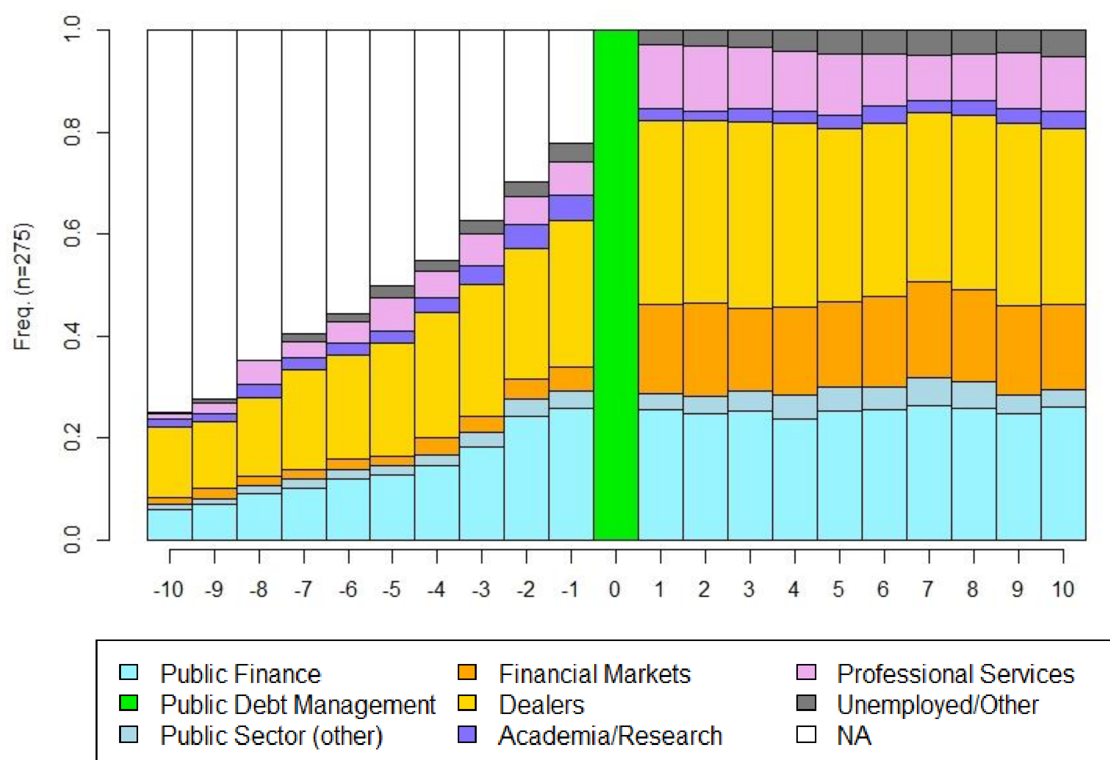
Source: Author’s own analysis

4.1.2 The *exit* side

Moving to former public debt managers, the plot in Figure II-4 describes the career states of former public debt managers in the ten years prior and after their office. The tempogram indicates that the most frequent post-term career destinations are government securities dealers, followed by public finance, financial markets and professional services. Importantly, the plot suggests that public debt managers with a background at the dealers tend to move back to the original industry after public appointment.

[15] The share does not sum up to 1, as the sample might display a career path across multiple economic sectors.

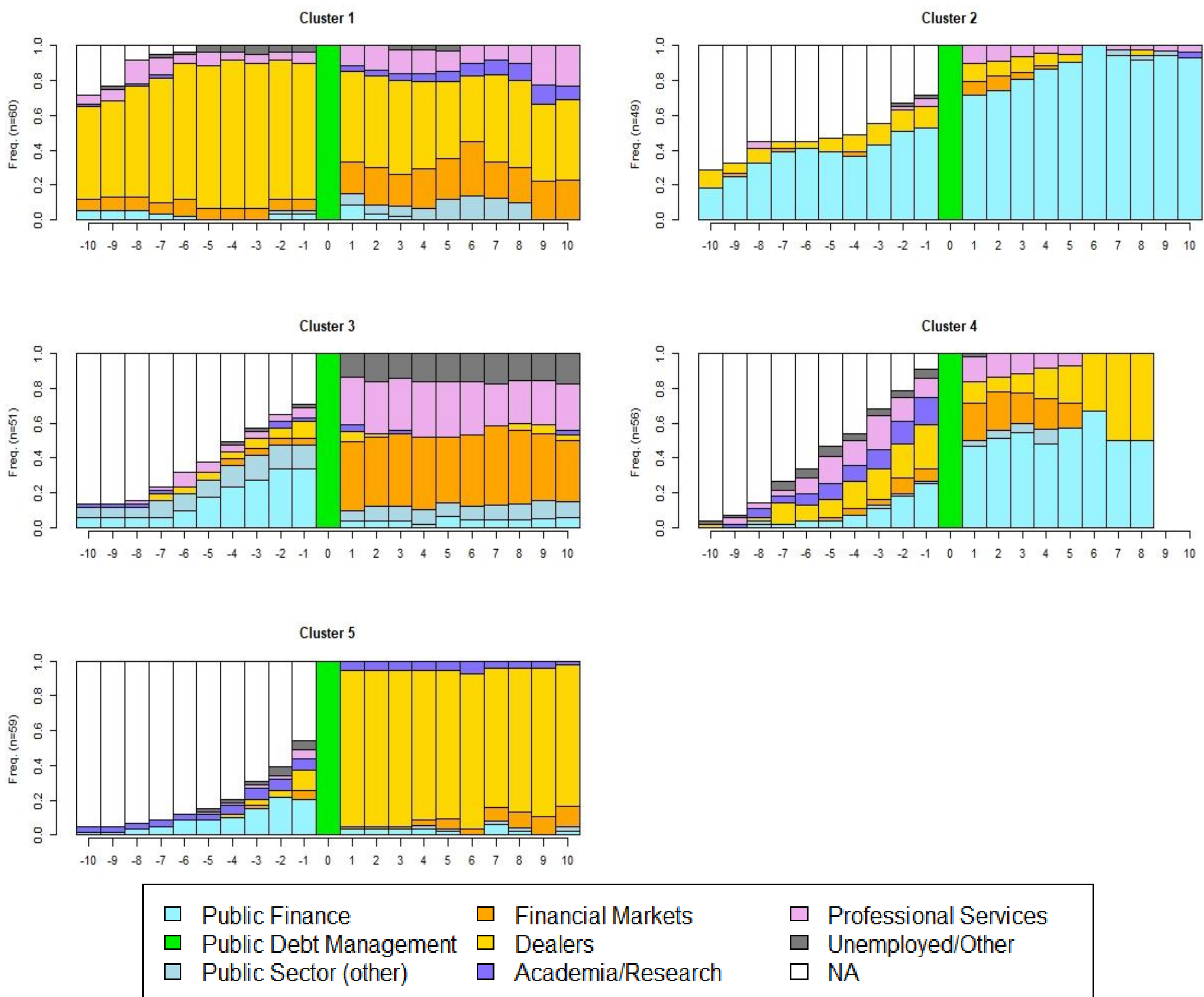
Figure II-4. Tempogram, career paths of 275 former public debt managers



Source: Author's own analysis

Figure II-5 illustrates the five clusters grouping the most similar career trajectories across the sample of former public debt managers. Including the majority of public servants (n = 60), Cluster 1 is dominated by public officials working at the dealers before and after their experience at DMUs. Cluster 2 (n = 49) captures career profiles revolving around public finance institutions. The third (n = 51) displays a background in public finance, moving on to financial markets and to a lesser extent consultancy. The fourth (n = 56) and fifth (n = 59) clusters illustrate both career trajectories characterised by a mixed or even absent background, and a post-debt management career dominated by public finance and the dealers respectively.

Figure II-5. Tempogram, 5 clusters of former public debt managers



Source: Author's own analysis

Accounting for 43% of the sample, descriptive statistics (Table II-4) confirm that the most recurring debt managers' career destination is the dealers. It follows public finance (34%), financial markets (29%), and professional services (19%) - for a histogram of most frequent career destinations, see Figure II-B2, Appendix B. Before serving at national DMUs, 38% of the sample worked at the dealers, 36% in the public sector, and 22% at consulting companies. There are cases of public servants ending up establishing their own public debt management consultancy company or being appointed as associates of an existing one. Furthermore, 48 debt managers worked at market makers before and after their tenure, and some of them for the same company.

On average, the sample has spent circa seven years at the dealers, and one year and a half at other financial institutions. Former debt managers have served circa four and a half years in public administration, and only around two at professional services companies. The sample's average tenure at DMUs is five years.

Table II-4. Most frequent career paths across former public debt managers **(**n = 275)

	Transitions	*Share*	*Count*
1	(DMU) - (Dealers)	43%	120
2	(DMU) - (Public finance)	34%	95
3	(DMU) - (Financial markets)	29%	83
4	(DMU) - (Professional services)	19%	54
5	(Public Finance) - (DMU) - (Public Finance)	17%	49
6	(Dealers) - (DMU) - (Dealers)	17%	48

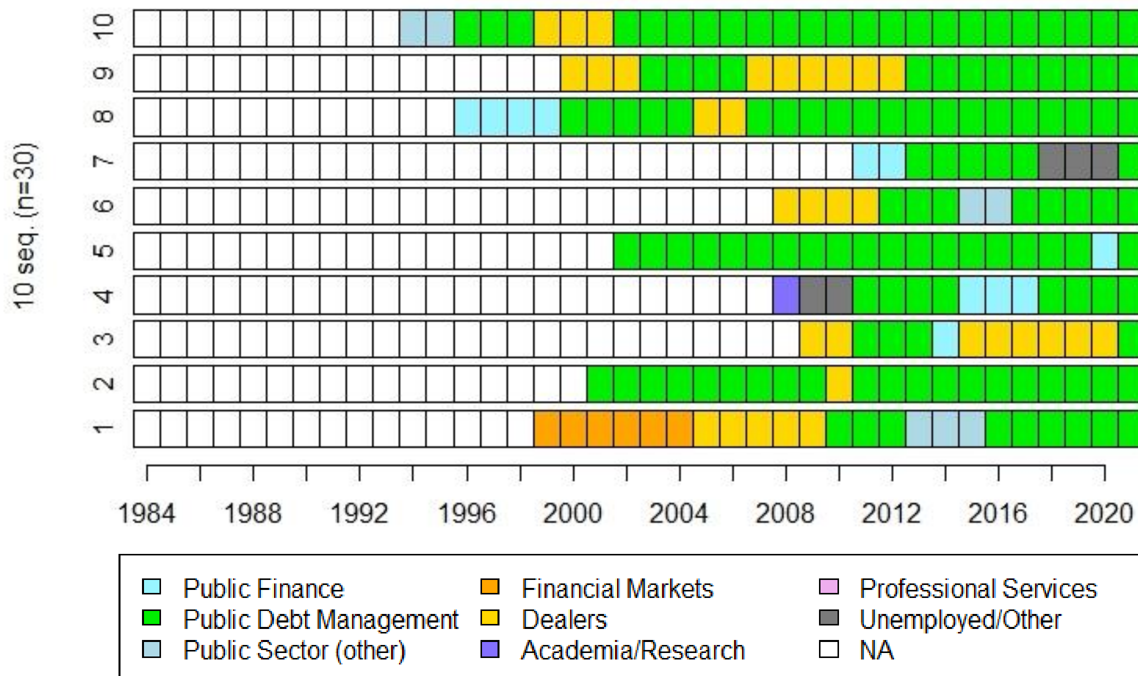
Source: Author's own analysis

4.1.3 In and out

The revolving door is a multidimensional phenomenon (Makkai and Braithwaite 1992). The literature has recently investigated the potential determinants and causes of multiple in and out transitions (Chalmers et al. 2021). In the sample there are 30 former or in office public debt managers who moved in and out of DMUs multiple times (ranging from two to five). As depicted in Figure II-6, career trajectories feature multiple transitions in and out from the revolving door (sequence 3 and 9) as well as short transitions in public finance (sequence 4 and 5).

Out of 30 public officials performing multiple transitions, these are mostly traders (11), CEOs (9), and economists (7). In particular, executive public debt managers and traders are characterised by in and out transitions with respect to the dealers.

Figure II-6. Ten random career trajectories performing in and out transitions



Source: Author's own analysis

4.2 Comparative analysis

This subsection evaluates the revolving door phenomenon's salience accounting for debt managers' function and hierarchy in the organisation. As per the research design outlined in Section 3, the positions included in the analysis are CEOs, traders, economists and professionals (i.e. lawyers and consultants).

Accounting for a revolving person's seniority while working at the dealers, the analysis allows one to draw insights on a public servants' degree of connection to their former employer. Indeed, the higher the level of seniority whilst working in the industry, the more likely the public servant is to establish professional connections with key positions (Abbott 1988). On the 'exit' side, the data aims to assess the extent to which public officials switch to a high seniority position at the dealers after their time in office. Such information is useful for investigating the potential personal financial motives triggering public officials' career moves.

Table II-5. The revolving door across functions, in brackets the share of high-ranking roles at the dealers

	Entry	*Count*	*n*	*Exit*	*Count*	*n*
Traders	52% (13%)	107	207	47% (20%)	38	81
Economists	35% (5%)	87	246	36% (11%)	43	120
Professionals	51% (15%)	26	51	25% (-)	3	12

Source: Author's own analysis

Table II-5 provides the distribution of the revolving door phenomenon across DMU's positions, accounting for the sample of public officials not covering senior positions. In brackets are the share of debt managers with a high-ranking career at the dealers. Overall, 'traders' are public officials mostly affected by the phenomenon's 'entry' side, followed by economists and professionals. Across the sample, 'professionals' are those debt managers who mostly covered high seniority positions while at the dealers. Such a result is followed by traders (13%) and economists (5%).

Moving to the 'exit' side, 47% of traders switched to the dealers after their public appointment. Accounting for 36% the result is followed by economists and professionals (25%). Among former public officials, traders are those who yielded the largest share of seniority positions (20%), followed by economists (11%).

Table II-6. The revolving door across senior positions, in brackets the share of high-ranking roles at the dealers

	Entry	*Count*	*n*	*Exit*	*Count*	*n*
CEOs	46% (26%)	51	112	41% (33%)	24	58
Traders	50% (20%)	44	88	46% (28%)	13	28
Economists	33% (7%)	28	85	45% (18%)	10	22
Professionals	55% (26%)	16	29	33% (-)	2	6

Source: Author's own analysis

Table II-6 shows that, among senior public officials, professionals are those with the highest share of background at the dealers (55%), followed by traders (50%), CEOs (46%) and economists (33%). Furthermore, accounting for 26% of sample executives, CEOs, along with professionals, covered the most executive positions while working at the dealers followed by traders (20%) and economists (7%).

Moving to the 'exit' side, accounting for a share of 46%, senior traders are those who after their office moved to the dealers the most, mainly covering senior positions (28%). More of the same applies to CEOs and economists, whereby 41% and 45% switched to the dealers respectively. The sample of senior professionals does not contain any public officials who moved to high-ranking positions at the dealers.

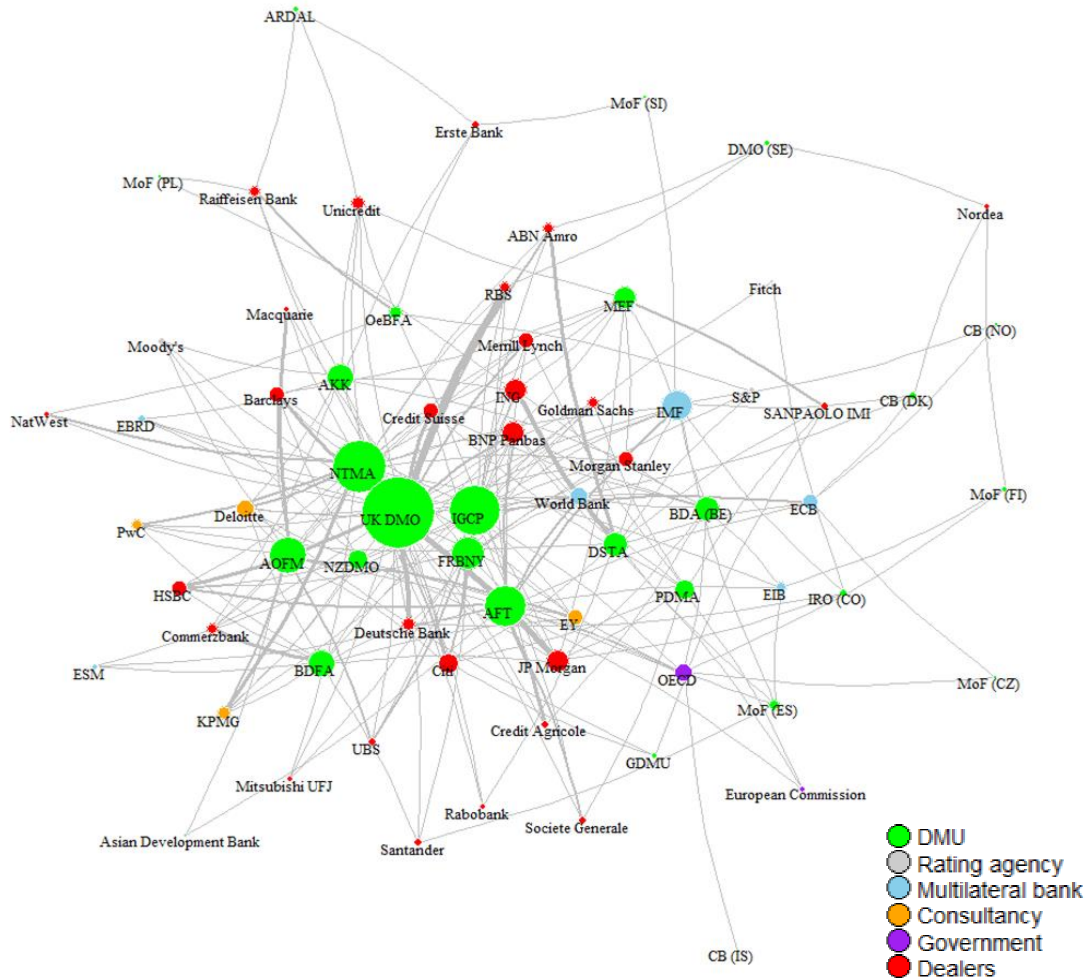
Overall the results show that senior positions and financial-expertise intensive roles are the most affected by the revolving door. Indeed, the phenomenon gains magnitude among CEOs, other senior positions, and traders. Significantly, CEOs are most likely to switch to high seniority positions at the dealers after the public appointment.

5. Social network analysis

The literature quantitatively analysing the revolving door has been recently drawing on network science to provide a graphical and structural overview of the most salient features of professional connections within a community (Young, Marple, and Heilman 2017; Seabrooke and Tsingou 2020).

Whilst sequence analysis allowed this study to identify the sample's most frequent career trajectories, by drawing on network science the upcoming section examines the features of two professional communities: (*i*) one linking DMUs to their institutional environment, (*ii*) and the other tracing the network of executive debt managers.

Figure II-7. Professional ties of 27 DMUs



Source: Author's own analysis

Interpreting the two graphs in Figure II-7 and Figure II-8, the larger nodes indicate the larger quantity of professional connections they possess within the network. By the same token, the density of the links is directly proportional to the amount of professional connections linking the two nodes.

Figure II-7 illustrates the network of professional ties across the 27 DMUs object of interest.[16] The graph shows that the DMUs with the most professional connections with the stakeholder environment are the UK DMO, followed by NTMA (Ireland), IGCP (Portugal), AFT (France), and AOFM (Australia). Actors with the highest

[16] For a comprehensive list, see Table II-A1, Appendix A.

network betweenness centrality[17] are the dealers, along with the transnational standard-setters providing intelligence and expertise for the management of government debt – i.e. the IMF, the World Bank, and the OECD.[18]

Significantly, the graph reveals that the most influential actors in government debt management are the IMF, JP Morgan, BNP Paribas, ING, Citi and to a lesser extent the World Bank along with professional services companies such as Deloitte and Ernst & Young (EY). Although the dealers shape the transnational professional community overall, there is a distinct regional trend. DMUs are densely linked to domestic dealers, a feature epitomised by Austria (OeBFA) and Raiffeisen Bank along with Erste Bank; Sweden (DMO (SE)) and Nordea; the UK DMO and the Royal Bank of Scotland (RBS). As will be inferred from the network in Figure II-8, DMUs are connected to global dealers mostly through their chief executives.

The professional network of executive directors in Figure II-8 highlights that the most central actors are the dealers along with Bretton Woods institutions, governmental bodies – e.g., the European Commission (EC) – and prestigious universities – i.e. Harvard and the London School of Economics (LSE).

The personalities displaying the highest betweenness centrality are:[19]

(*i*) Pablo de Ramon-Laca, former director of the Spanish DMU, with education at the LSE and Oxford, professional experience at the Bank of England and chair of the EC's Sub-Committee on EU Sovereign Debt Markets

(*ii*) Mike Williams, the former UK DMU chief executive, with experience as a transnational debt management consultant for the IMF and World Bank

(*iii*) Petr Pavelek, CEO of the Czech Republic DMU, with a background at dealers (Erste Bank), exchanges (MTS), think tanks (the OECD), governmental institutions (the European Commission), and multilateral development banks (the European Investment Bank, EIB).

[17] Betweenness centrality is a centrality measure allowing the identification of the most influential actors within a network (Jackson 2010).
[18] For data on betweenness centrality, see Table II-B2, Appendix B.
[19] For data on betweenness centrality, see Table II-B3, Appendix B.

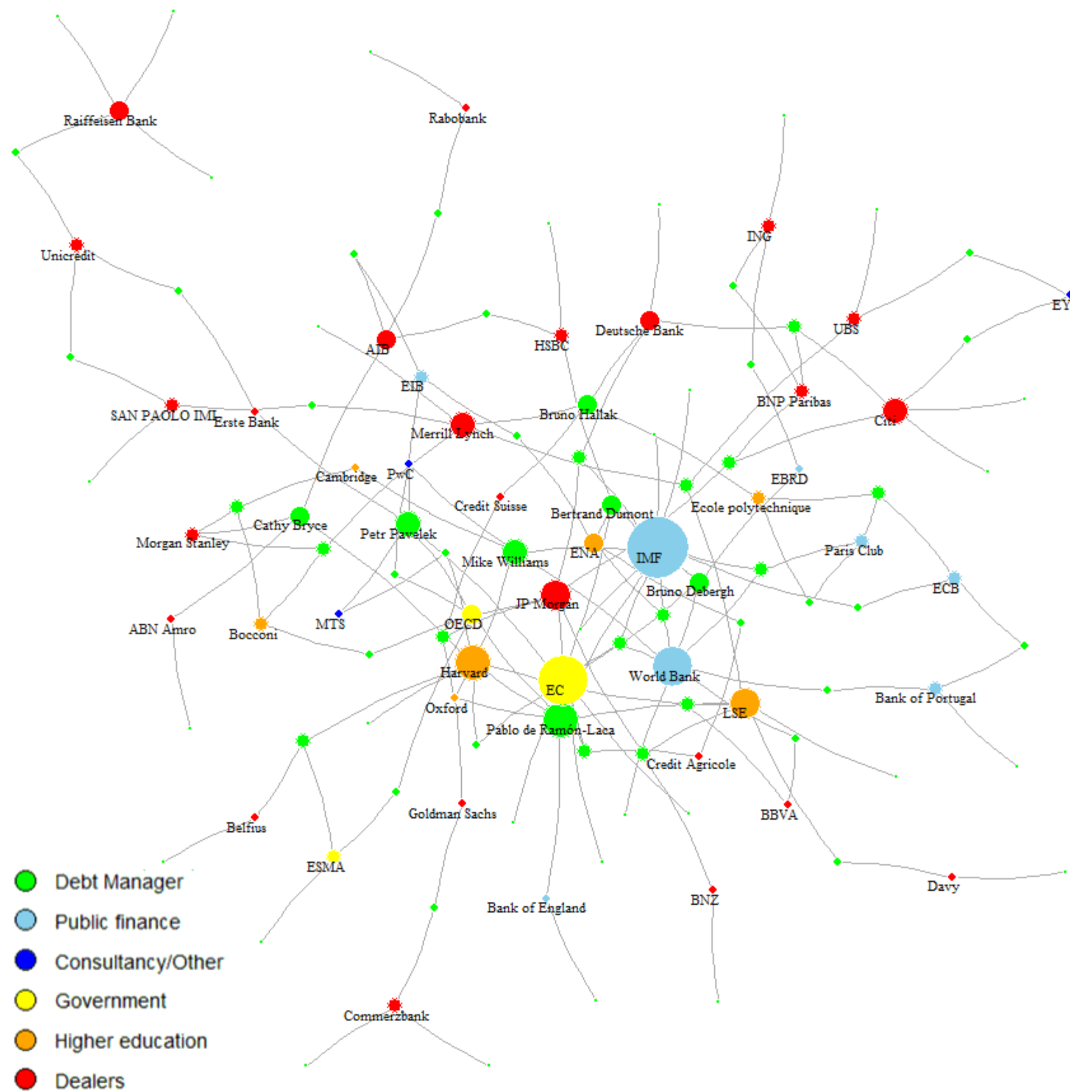
Overall the epitomising trait of executive debt managers is in their affiliation to:

(*i*) transnational epistemic communities shaping sovereign debt management (i.e. the IMF and the World Bank, along with the OECD)

(*ii*) global dealers (i.e. JP Morgan, Citi, and Merrill Lynch)

(*iii*) prestigious universities transnationally such as Harvard, Cambridge, LSE, Oxford and, regionally, the École Polytechnique and the Ècole nationale d'administration (ENA) in France, and Bocconi in Italy.

Figure II-8. Professional network of DMU's executives



Source: Author's own analysis

Examining the influence of debt management standard-setters on national policymaking, emblematic is the case of Mike Williams, the first CEO of the UK DMU. One might contend that his expertise as a transnational consultant for the IMF and World Bank might have eased the implementation of public finance reforms that led to the establishment of the UK DMU.[20]

6. Discussion

Sequence analysis carried out in Section 4 reported the endemic presence of the revolving door phenomenon with respect to the dealers of government securities, gaining momentum among chief executives and financial expertise-intensive positions. Additionally, network science shows that the most influential institutions in the professional community are the dealers along with transnational debt management epistemic groups.

Stemming from such findings, this section discusses the potential causes and effects of the revolving door phenomenon. The primary argument posits that although this form of professional interchange can be argued to enhance expertise, communication with the industry, and the government's credibility towards capital markets, it potentially exacerbates the risks of capture and collusive behaviour inherent in the primary dealer system. Indeed, according to scholars and industry professionals, the DMU-dealer partnership consists in an interplay of mutual interests potentially hosting *quid pro quo* transactions (Dobry 1986; Lemoine 2013; Global Capital 2019). The DMU must induce the dealers to commit to the partnership providing them with the right incentives (World Bank 2010a), a strategy requiring the DMU to occasionally act in the private interest. Moreover, both the industry and the DMU must account for losses due to exogenous factors - i.e. the state of the economy (World Bank 2010a; Global Capital 2019).[21]

Although the revolving door can be said to foster communication with the industry and heighten financial market's trust in the government, given the previously outlined institutional setting, the phenomenon could be a source of risk for public integrity and

[20] For a thorough list of Mike Williams' consultancy assignments, see (Williams 2023).
[21] For an analysis of the parties' micro foundations, see the previous Essay I.

transparency. As magnified by the cases outlined in the upcoming subsection, a public debt manager's prior experience at the dealers or the pecuniary incentive of switching to the industry could facilitate collusive schemes to occur by exacerbating conflicts of interest.

6.1 The *entry* side

Career data suggests that the main cause of the entry side of the revolving door is expertise. The empirical findings corroborate research arguing that DMUs actually encourage future public debt managers to undertake a training period at commercial banks to gain operational experience in the market for government bonds (Lemoine 2013, 16–17).[22] Surveys submitted to the Australian and Italian DMU revealed that prospective public servants with a background in the financial industry are highly desirable for better fulfilling the organisation's task (AOFM 2021a; MEF 2021b).[23] The revolving door is therefore an institutional feature easing the process of modernisation of public debt management: revolving officials help to turn the fiscal agent into a market player by introducing the industry's logic into the organisation and easing the implementation of financial techniques.

Enhancing DMUs' professionalisation, the revolving door makes the government more credible towards financial markets. In an interview, the UK DMO Head of Dealing, Martin Duffell, disclosed that although experience at the dealers is not a necessary condition for a prospect candidate, such a professional background is highly desirable especially for those roles whose day-to-day operations require constant communication with the market makers and a pre-established knowledge of industry functioning - i.e. traders and portfolio managers (UK DMO 2021a).[24] Thanks to previous experience in the field, this would improve both the public servant's understanding of global financial markets and the dealer's business.

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[22] 'A secondment of at least three months in the commercial banks, to gain direct experience of how bond trading works, has become an obligatory rite of passage for the AFT's [French DMU] operational staff ' (Lemoine 2013, 16–17).

[23] For the survey questions, see Appendix C.

[24] For the interview questions, see Appendix C.

Nevertheless, the dominance of a career background at the dealers, especially among senior positions, bears potential risks. In an institutional setting wherein the dealers could capture the DMU and engage in collusive behaviour (Arnone and Ugolini 2005, 51; Lemoine 2013; Sadeh and Porath 2020), the lack of a level playing field might exacerbate such a risk. As per the theory of cultural capture (Kwak 2013), due to loyalty to their former employees, shared mindset and values, public debt managers could bias their office favouring the industry (Gormley 1979; Cohen 1986; Makkai and Braithwaite 1992b; Veltrop and de Haan 2014).

Epitomising such risks is the recent case involving the CEO of the UK DMU Robert Stheeman, who, prior to his appointment, developed a high-ranking career at dealer Deutsche Bank leading its fixed income markets department (HM Treasury 2002). In 2020 the chair of the House of Commons Treasury Committee, Mel Stride, filed an investigation in the UK DMU operations, among others, asking for more details over the calculation of syndicated fees (Stride 2020). Although syndicated auctions constitute the main incentive for the dealers to perform (AOFM 2019; World Bank 2010b), Stheeman's answer does not provide a thorough criterion underpinning the fees' calculation (Stheeman 2020). Lack of clarity in this area of governance might embed public debt managers with degrees of freedom whilst awarding the dealers. Consequently, one might argue that Robert Stheeman's high-ranking background at Deutsche Bank could bias his office favouring his former employer, a dealer bank displaying a high rate of participation in syndicated auctions.[25]

6.2 The *exit* side

Upon resignation, the data shows that the largest share of public debt managers switches to the dealers. Such trend gains momentum among senior public officials and financial expertise-intensive roles – i.e. traders and risk managers. With regard to government regulation, such evidence might be interpreted as a proxy for capture

[25] The list of banks participating in each syndicated panel are available on the UK DMU's website, for some cases, see (UK DMO 2010; 2021b). For an analysis of the revolving door case, see the upcoming Essay III, Section 3, Subsection 3.1.3.
For a description of syndicated auctions and of the case without accounting for the revolving door phenomenon, see Essay I, Section 5.

(Gormley 1979; Cohen 1986). However, in government debt management, the potential causes driving the phenomenon are actually more nuanced.

The main reason making the dealers attractive to a prospective employer is likely to be linked to pecuniary factors as well as professional affinity. Primarily, jobs at investment or commercial banks are notoriously more lucrative in comparison to those in the public services. Secondarily, public debt managers could be hired by the industry due to cultural and professional affinity (i.e. homophily). For instance, DMU traders are attractive given their expertise in fixed income markets. Indeed, as discovered in the hand-coding task, former public debt managers employed in the trading room tend to switch to the market-makers' fixed income department. Buttressing the argument for professional affinity, public debt managers with a background at the dealers tend to move back to the market makers upon resignation – i.e. 17% of former public officials (see Table II-4).

As per the related literature, other potential determinants making public debt managers attractive to the industry are linked to their bureaucratic capital and network of government contacts (Brezis 2017; LaPira and Thomas 2014). Executive public debt managers offer their prospect employer policy knowledge and a network of influential contacts, which constitute precious assets for the industry to exert effective lobbying activity and enhance their performance in fixed income markets.

Nevertheless, the endemic diffusion of the revolving door especially among traders and CEOs deserves supervision, as these roles entail heightened professional proximity with the dealers. The main risk is that the pecuniary incentive would turn into rent-seeking behaviour triggering capture and collusion. In fact, while in office, public debt managers could bias their activity favouring their prospective employer due to career concerns (Spiller 1990; deHaan et al. 2015; Li 2021).

Highlighting such risk of *quid pro quo*, with regard to the controversial case involving Italian derivative deals (Reuters 2017),[26] the former minister of finance and DMU director Domenico Siniscalco stipulated between November 2001 and May 2005 derivative contracts alleged to be overly favourable for Morgan Stanley (Corte dei

[26] For a thorough analysis of the case without accounting for the revolving door phenomenon, see Essay I, Section 5.

Conti 2019, 5). In April 2006 he moved to the latter dealer covering a senior position (Morgan Stanley 2006). Beyond being subject to intertemporal conflicts of interest, the career move could be perceived as a reward for favouring the dealer while in office.

7. Conclusion

Collating a unique data set tracing the career path of 655 former and in office public debt managers at national DMUs across 27 OECD countries, this essay provides an empirical account of the revolving door phenomenon in government debt management. In particular, 46% of sample public debt managers worked at the dealers and 43% of former officials moved to the dealers upon resignation. Significantly, the professional interchange gains momentum among senior public officials and industry expertise-intensive positions – i.e. traders and risk managers. Network science shows that the dealers along with transnational standard-setters are the most influential actors shaping government debt management.

The data suggests that although the revolving door phenomenon is an institutional feature of modern sovereign debt management, it bears potential downsides as it may exacerbate the potential risks of capture and collusion inherent in the DMU-dealer partnership (Dobry 1986; Arnone and Ugolini 2005; Lemoine 2013, 6; Sadeh and Porath 2020).

Hiring public officials with a background at the dealers allows DMUs to enhance their degree of professionalisation, thereby ensuring financial markets' trust. However, as highlighted by the case of Robert Stheeman, due to cultural identification with the industry, entry revolvers could act in the private interest potentially producing negative externalities. Instead, public debt managers with a background at Bretton Woods institutions and other public finance epistemic communities (i.e. the OECD) are crucial for steering the implementation of debt management reforms – see the case of Mike Williams.

Post-public employment data reveals the dominance of the dealers over other career destinations. A potential explanation of such a trend is the professional affinity linking public debt managers and the dealers. However, given the parties' agency relationship, the phenomenon poses a series of potential risks for public integrity.

Moved by rent-seeking motives, incumbent public debt managers might bias their behaviour favouring the prospect employer, a risk epitomised by the case of Domenico Siniscalco. Additionally, as revolvers move to positions involving fixed income markets, this dynamic of 'switching sides' deserves consummate oversight.

The data set shall pave the way to studies empirically investigating the determinants and effects of the phenomenon accounting for the institutional setting framing government debt management (deHaan et al. 2015; Chalmers et al. 2021; Li 2021). Additionally, the data set could trigger survival analyses that assess the impact of public officials' professional backgrounds on their career progressions (Coen and Vannoni 2020). Embedding empirical in anecdotal evidence (Sadeh and Porath 2020; Trampusch 2019), this essay advances the literature in the political economy of sovereign debt management and its financialization (Livne and Yonay 2016; Fastenrath, Schwan, and Trampusch 2017; Trampusch 2019).

As the paper's overarching objective is to trigger studies that identify and manage potential side-effects of the revolving door, the upcoming Essay III systematically scrutinises DMUs' sensitive areas of governance wherein the phenomenon could pose a risk for public integrity and proposes regulatory reforms enhancing the adequacy of the current regime.

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Appendix A

Table II-A1. List of jurisdictions and related DMUs

Jurisdiction	*Debt Management Unit*
Australia	Australian Office of Financial Management
Austria	Österreichische Bundesfinanzierungsagentur
Belgium	Belgian Debt Agency
Colombia	Investor Relations Office
Czech Republic	Ministry of Finance
Denmark	Danmarks Nationalbank
Finland	State Treasury
France	Agence France Trésor
Germany	Bundesrepublik Deutschland – Finanzagentur
Greece	Public Debt Management Agency
Hungary	Government Debt Management Agency
Iceland	Central Bank of Iceland
Ireland	National Treasury Management Agency
Italy	Ministry of Economy and Finance
Israel	Government Debt Management Unit
Japan	Ministry of Finance
The Netherlands	Dutch State Treasury Agency
New Zealand	New Zealand Debt Management Office
Norway	Norges Bank
Portugal	Agência de Gestão da Tesouraria e da Dívida Pública
Poland	Ministry of Finance
Slovakia	Debt and Liquidity Management Agency
Slovenia	Ministry of Finance
Spain	Directorate-General for the Treasury (Tesoro Público)
Sweden	Riksgälden
The UK	UK Debt Management Office
United States	Federal Reserve Bank of New York

Source: Author's own analysis

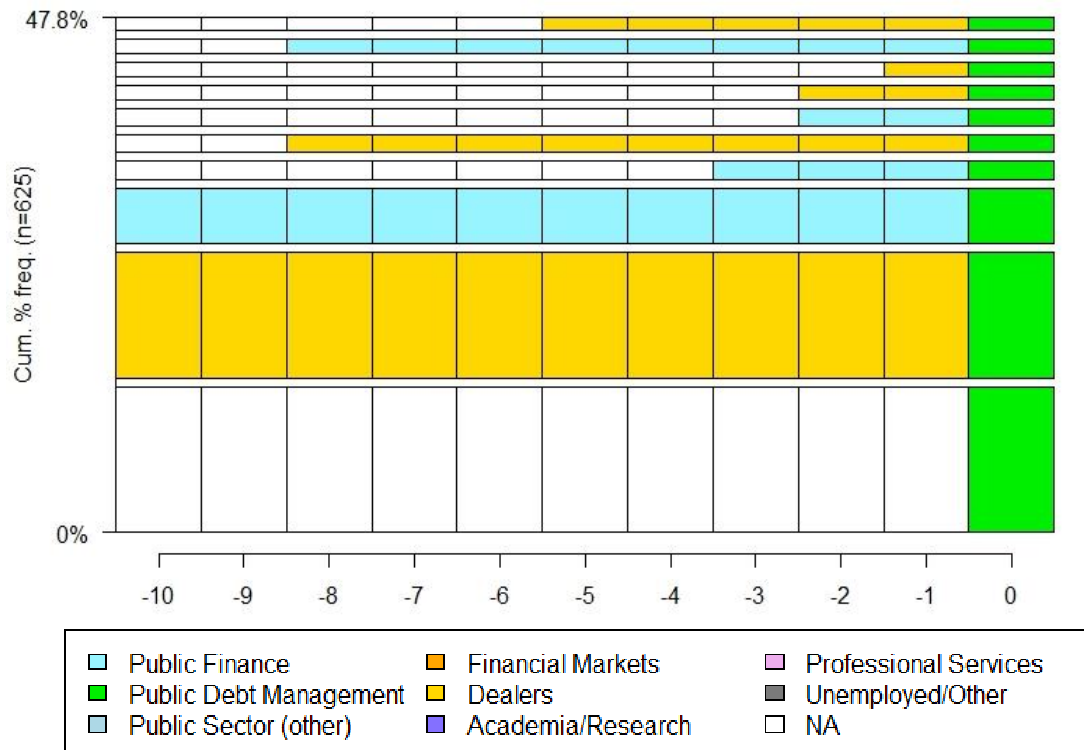
Appendix B

Table II-B1. Transition costs between career states

	PF	PDM	GOV	FM	D	A	PS	U
PF	0	1,84	1,98	1,98	1,96	1,94	1,94	1,94
PDM	1,84	0	1,86	1,86	1,88	1,82	1,85	1,84
GOV	1,98	1,86	0	1,98	1,98	2,00	1,99	1,97
FM	1,98	1,86	1,98	0	1,92	1,98	1,97	1,96
D	1,96	1,88	1,98	1,92	0	1,96	1,92	1,96
A	1,94	1,82	2,00	1,98	1,96	0	1,94	1,96
PS	1,94	1,85	1,99	1,97	1,92	1,94	0	1,93
U	1,94	1,84	1,97	1,96	1,96	1,96	1,93	0

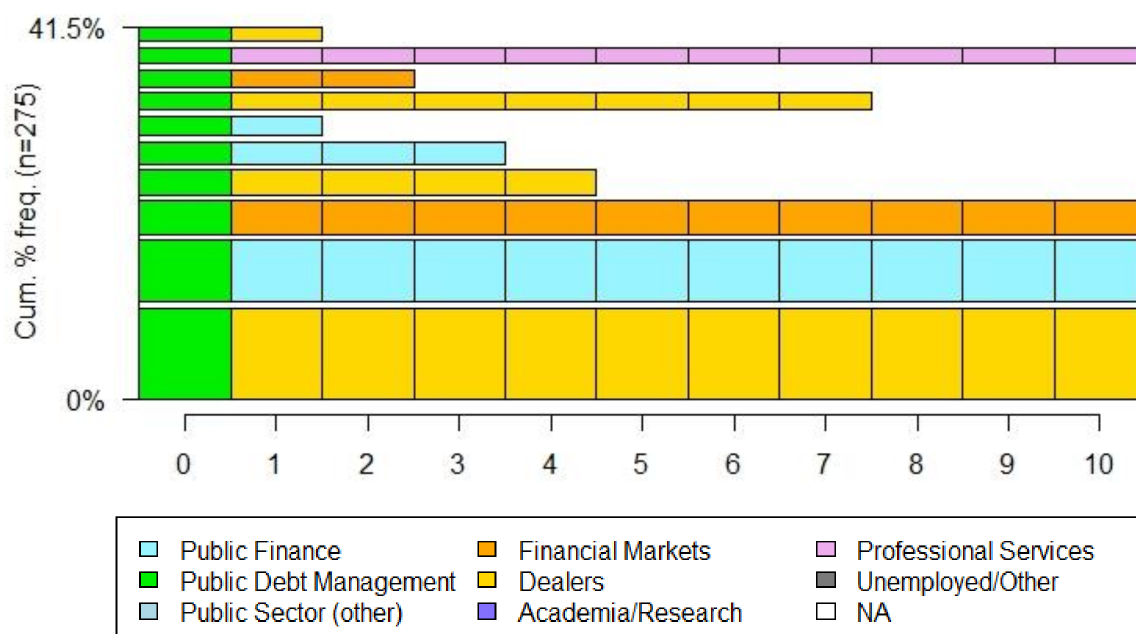
Source: Author's own analysis

Figure II-B1. Most frequent career backgrounds across the sample



Source: Author's own analysis

Figure II-B2. Most frequent career trajectories across former public debt managers



Source: Author's own analysis

Table II-B2. Nodes with the highest betweenness centrality (network of DMUs)

Nodes	Betweenness centrality
IMF	822,087
OECD	550,493
ING	335,302
Citi	333,289
BNP Paribas	307,345
Deloitte	306,092
JP Morgan	302,746

Source: Author's own analysis

Table II-B3. Nodes with the highest betweenness centrality (network of executives)

Nodes	Betweenness centrality
IMF	1917,164
Pablo de Ramón-Laca	1898,729
European Commission	1678,440
JP Morgan	1380,423
LSE	1328,509
Harvard	1214,368
Petr Pavelek	1066,369
Merrill Lynch	910,100
Mike Williams	374,114

Source: Author's own analysis

Appendix C

Survey submitted to the Australian Office of Financial Management (AOFM)

- In your opinion, what are the main advantages and disadvantages of having a primary market that features the presence of Registered Bidders (hereafter 'Bidders')?

- In a strategic meeting over the formulation of the debt management policy, among the stakeholders' preferences, to what extent does the Bidders' position affect the policy outcome? Generally, are the positions of the Bidders and AOFM aligned? Would you be so kind to make some examples?

- According to the International Monetary Fund (IMF), the World Bank, and the Organisation for Economic Co-operation and Development (OECD), the Bidders' professional logic (i.e. financial industry's approach to tasks) is present in organisations with the mandate of raising public finance – DMO, Ministry of Finance, Central Bank. Is it important that the debt management task is carried out implementing the industry's expertise? Why?

- Recruiting new employees, is for the AOFM important to have candidates who nurtured expertise at the Bidders? Why?

- How has the Treasury awarded the Bidders with privileges? Are these the result of negotiations between the AOFM and the Bidders? If yes, would you be so kind to describe the related negotiation process and if it must abide by regulations?

- Could you please describe what are the Bidders' privileges? And according to what rationale does the AOFM decide when to award the Bidders with those?

Survey submitted to the Italian Ministry of Economy and Finance (MEF)

- Secondo Lei, quali sono i principali vantaggi e svantaggi derivanti da un sistema basato sugli Specialisti in Titoli di Stato ('primary dealers')?

- Durante un meeting strategico (es. formulazione della strategia di finanziamento della Repubblica, incontri pre-asta) richiedente la collaborazione con gli Specialisti, tra le posizioni dei vari stakeholders, quanto incide la preferenza degli stessi sulla formulazione della strategia finale? Generalmente, le posizioni del Tesoro e degli Specialisti sono allineate?

- L'IMF, WB e ricercatori hanno rilevato la presenza degli Specialisti in meeting strategici e delle loro logiche professionali fra i funzionari di istituzioni aventi il mandato di gestire le aste e il debito pubblico – Ministero del Tesoro, Banca Centrale, Ufficio di Debito Pubblico. È importante per gli Specialisti che la collaborazione si svolga come sopra descritto? In base alla Sua esperienza, la forte presenza degli Specialisti nelle attività del tesoro è più positiva o negativa per il bene pubblico?

- Come sono stati stabiliti i privilegi degli Specialisti (Titolo 2, Art. 9, Decreto Dirigenziale n. 993039 – 11 novembre 2011)? Sono il risultato di negoziati tra il Tesoro e gli Specialisti? Se sì, può gentilmente descrivere la procedura negoziale e se deve essere condotta in conformità con la legislazione?

- In che modo viene stabilito quando elargire i privilegi agli Specialisti? Ad esempio, come viene deciso quando consentire agli Specialisti l'accesso esclusivo alle riaperture riservate delle aste dei titoli di Stato?

- Per quanto concerne l'assunzione di nuovi funzionari incaricati alla gestione del debito pubblico, è importante per il Tesoro avere candidati che abbiano maturato capacità professionali presso l'industria finanziaria? Se sì, perché?

Interview with the UK Debt Management Office

- In your opinion, what are the main advantages and disadvantages of having a primary dealer system in force?

- In a strategic meeting over the formulation of the debt management policy, among the stakeholders' preferences, to what extent does the primary dealers' position affect the policy outcome? Generally, are the positions of the dealers and DMO aligned? Would you be so kind as to make some examples?

- According to the International Monetary Fund (IMF), the World Bank, and the Organisation for Economic Co-operation and Development (OECD), the dealers' professional logic (i.e. financial industry's approach to tasks) is present in organisations with the mandate of raising public finance – DMO, Ministry of Finance, Central Bank. Is it important that the debt management task is carried out to implement the industry's expertise? Why?

- When recruiting new employees, is it important for the Treasury to have candidates who nurtured expertise at primary dealers? Why?

- How are the dealers' privileges set? Are these the results of negotiations between the DMO and dealers? If yes, would you be so kind as to describe the related negotiation process and if it must abide by regulations?

- According to what rationale does the DMO decide when to award the dealers with privileges? And besides, how do the DMO and the dealer reach an agreement over the fees to apply for a syndicated auction? Is there any official rationale underpinning the fees' setting process?

III

Regulating the revolving door: The case of government debt management*

Abstract

The revolving door is a socio-economic phenomenon whose salience is steadily gaining momentum among policymakers. Focusing on executive branches in charge of government debt management – debt management units (DMUs) –, this essay systematically identifies the potential benefits and risks triggered by the career interchange. In government debt management, the revolving door is the horizontal movement of public officials to the dealers of government securities, and vice versa. Pondering the phenomenon's risks and benefits, this study designs policy solutions that preserve the value-creating effect of the revolving door while dealing with potential side-effects. Drawing on case studies, surveys, and interviews, this essay highlights how the revolving door could exacerbate conflicts of interests inherent in the DMU-dealer principal-agent relationship. Preventing potential side-effects from arising, policy proposals advocate greater monitoring and transparency of 'grey' areas of governance. This contribution sheds light on two layers of policymaking. Firstly, providing a taxonomy of DMUs' operations that host a black-box, the essay aims to safeguard the integrity, impartiality, and sustainability of sovereign debt management. Secondly, envisioning a regulatory approach that addresses the revolving door's potential downsides, the study's overarching purpose is to steer policymakers in the ongoing process of modernising conflict of interest regulation.

Key words: revolving doors, business and government, conflict of interest, ethics regulation, public finance, dealers

JEL classification: K10, K20, K23, H63, H83, P16

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* Information on the terms of syndicated auctions and the revolving door phenomenon in DMUs was gathered via an interview with the UK DMU Head of Dealing, Martin Duffell. Surveys were submitted to various DMUs, however, only the Australian and Italian DMU replied.

1. Introduction

The revolving door phenomenon has been identified in various institutional contexts ranging from central banking (Adolph 2011) and lobbying (Vidal, Draca, and Fons-Rosen 2012; LaPira and Thomas 2014), to industry regulation (Gormley 1979; deHaan et al. 2015) and international arbitration (Langford, Behn, and Lie 2017). Although the professional interchange helps building public-private synergies (Che 1995; Salant 1995; Zaring 2013), it could exacerbate conflicts of interest and trigger capture, collusion, corruption and state-corporate crime (Gormley 1979; Dal Bó 2006; Li 2021; Pons-Hernández 2022).

Given its endemic diffusion and potential risks, the revolving door has been a source of growing concern among policymakers (GRECO 2007; OECD 2009; Transparency International 2011). Addressing the phenomenon's downsides, legislators have been introducing various regulatory solutions that combine hard with soft law mechanisms, and establishing independent ethics bodies (OECD 2015; Demmke et al. 2020; Demmke, Autioniemi, and Lenner 2021b). Despite its increasing sophistication, scholars, policymakers, and practitioners label the current framework as inadequate at detecting and managing potential risks (Zinnbauer 2015, 18; Cerrillo-i-Martínez 2017; UK Parliament 2017a; ANAC 2020).

Casting light on executive agencies in charge of managing central government debt – debt management units (DMUs) -, this paper provides a systematic assessment of the potential effects of the revolving door, and proposes effective regulatory solutions addressing the risks borne by the phenomenon, while preserving its value-creating potential.

In a wave of reforms that were prompted by the 1980s debt crises (Cosio-Pascal 2007) and neoliberal policymaking (Preunkert 2020a), governments have outsourced the task of managing sovereign debt to external agencies (Currie, Dethier, and Togo 2003) and established dense ties with national and global capital markets (Lemoine 2016; Preunkert 2020b). Via primary dealer systems, DMUs have appointed financial institutions – the 'dealers' – to regularly participate in auctions for government securities and/or enhance liquidity in the secondary market (Arnone and Ugolini 2005; World Bank 2010a; FICC Markets Standards Board 2020). Such principal-agent

relationship bears inherent conflicts of interest triggered by the parties' dichotomous business models and the *quid pro quo* institutional design.

This essay's main argument is that although value-creating, revolving doors carry the risk of exacerbating conflicts of interests which might trigger negative externalities for taxpayers. Empirical research shows that the professional ties between public debt managers and the dealers are endemic, and these gain momentum among senior public officials and financial expertise-intensive roles – i.e. traders and risk managers (Silano 2022a).[1]

With such empirical evidence in mind, drawing on cases, interviews, and questionnaires,[2] this essay assesses the potential benefits and risks of the revolving door phenomenon in DMUs, and designs effective regulatory solutions mitigating side-effects. Systematically identifying areas of governance and circumstances wherein the revolving door could pose an actual and potential risk for the integrity and impartiality of sovereign debt management, this essay reveals opaque DMU operations embedded in dense interaction with the dealers.

Addressing the rise of potential idiosyncrasies, policy proposals advocate an indirect approach regulating the revolving door. Being an essential feature for the effective management of sovereign debt, policymakers shall open the black-box in the identified DMU areas governance rather than introducing stricter norms. Additionally, supporting the identification and management of potential risks, fiscal agents shall ponder to update their codes of conduct and introduce a lobby register. Regulating the revolving door preserving the value-creating dimension of the phenomenon, the study aims at steering policymakers through the process of modernising conflict of interest regulations.

The remainder of the essay is the following. Section 2 provides an overview of the revolving door phenomenon highlighting its potential benefits and risks. Then, Section 3 evaluates the dynamic's potential effects and systematically identifies circumstances and sensitive DMU operations, wherein the revolving door could act as transmission

[1] See the previous Essay II.

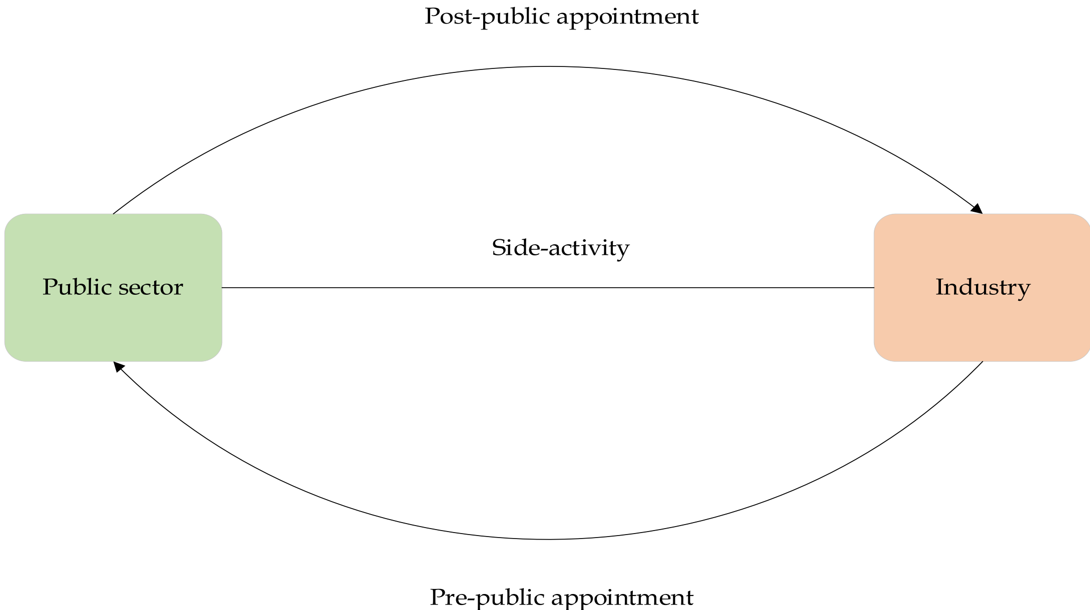
[2] Interview with the Head of Dealing of the UK DMU, Martin Duffell. Questionnaires were submitted to various DMUs, however, only the Australian and Italian DMU replied. For the survey and interview questions, see Appendix B.

channel for side-effects. Section 4 outlines policy proposals, and the conclusion summarises the findings and discusses avenues for future research.

2. Revolving doors: Theory, benefits and risks

Figure III-1 depicts the anatomy of the revolving door phenomenon as three-dimensional – i.e. post- and pre-public employment, and side-activities (Demmke et al. 2020, 121). Pre- and post-public employment denote respectively the appointment of public officials with industry experience, and vice versa. Side-activities describe private posts held by incumbent public servants. As highlighted in Figure III-1, such three dimensions are interconnected: public servants with a background in the private sector could hold a post in the industry while in office to then switch back to the original employer (OECD 2010). Such a cyclical dynamic has been stressed by recent research identifying public officials engaging in multiple in and out transitions (Chalmers et al. 2021).

Figure III-1. Anatomy of the revolving door phenomenon



Source: Author's own illustration

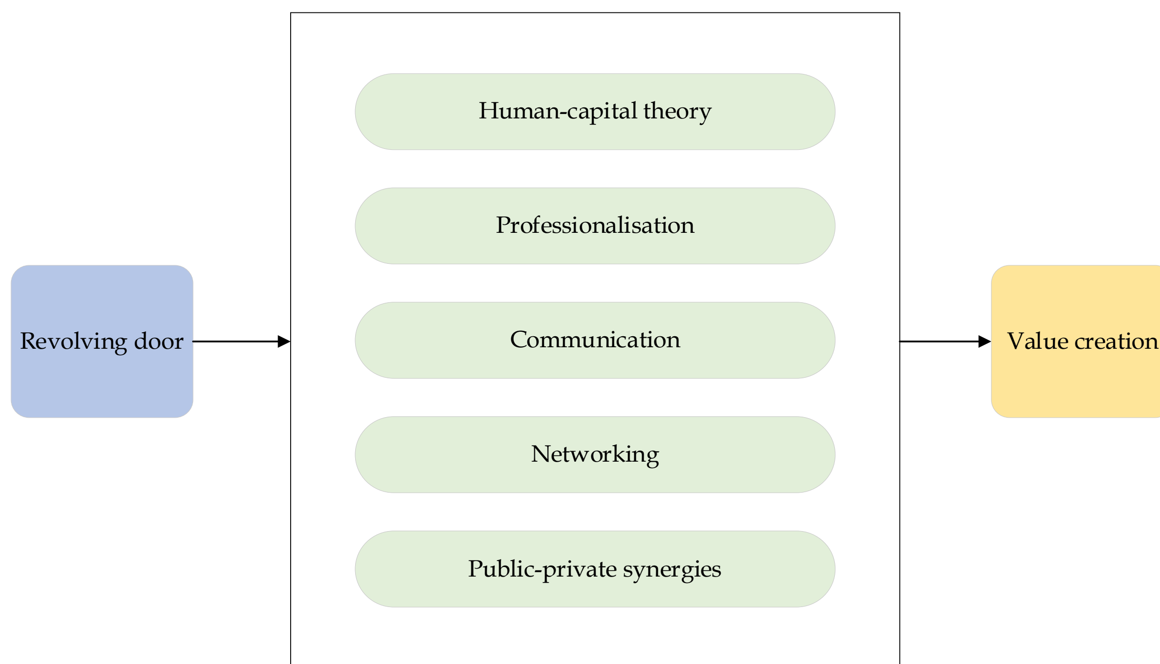
Scholars show how the phenomenon helps to spread expertise in public and private organisations (Che 1995; Salant 1995). Internalising the incentives of a liberal market economy, the career interchange would improve social welfare by enhancing the quality of regulation. Nonetheless, exacerbating conflicts of interest, the revolving door could act as a transmission channel for several pathologies undermining the integrity of the public good – i.e. rent-seeking, capture, corruption, and state-corporate crime (Che 1995; Saurack 1998; deHaan et al. 2015; Pons-Hernández 2022).

Upon outlining the value-creating effects of the phenomenon, the upcoming subsection highlights how the afore-described pathologies could encompass each dimension of the revolving door propagating through several mechanisms – e.g., rent-seeking behaviour, lobbying.

2.1 Benefits

As afore-introduced, a free to flow revolving door equips organisations with several benefits and ultimately enhances social welfare. As illustrated in Figure III-2, the revolving door would foster: (*i*) incentives to perform, (*ii*) professionalisation, (*iii*) communication, (*iv*) networking, and (*v*) other forms of public-private synergy. Stemming from such value-creating effects, scholars and policymakers have been calling for light or absent regulations towards the phenomenon (Zaring 2013; Zheng 2015; Cavendish 2021).

Figure III-2. The value-creating effects channelled by the revolving door phenomenon



Source: Author's own illustration

2.1.1 A catalyst for incentives

One of the arguments in favour of the revolving door is that the free movement of labour between the public and private sector endows individuals with the right incentives to perform. Setting his theoretical study in government regulation, Che (1995) develops the 'human-capital' theory positing that the revolving door nudges regulatory officials to engage in consummate monitoring and enforcement activity. Moved by higher salary prospects, the regulator would signal commitment and expertise to the industry, thereby increasing the likelihood of employment from the latter. The crux of the theory is that the revolving door phenomenon would trigger public officials to improve social welfare by fostering the quality of government regulation.

Although not equipped with conclusive evidence, studies set in banking regulation find empirical support for this theory (Lucca, Seru, and Trebbi 2014). By the same token, Barbosa and Straub (2017) show that in public procurement the revolving door has the beneficial effect of rewarding highly skilled workers.

As an alternative to the human-capital theory, Zheng (2015) introduces the 'market expansion' hypothesis. The author argues that freedom of switching to the industry would set the incentive to expand the market demand for services that the public servant would provide upon moving to the private sector. Consequently, former public officials would commit to maximise the market for their post-government services. Applying such theory to judicial and regulatory enforcement, prosecutors would intensify their enforcement actions, expanding the agency scope and jurisdiction (Zheng 2015, 1281). This behaviour would have the effect of enhancing social welfare by consummately enforcing regulations.

2.1.2 A source of professionalisation-expertise

Apart from setting the microeconomic incentives that foster social welfare, the revolving door is a source of precious assets that promote professionalisation and knowledge in an organisation. Depending on the institutional context, individuals that move around the private and public sector provide entry organisations with human and social capital. With regard to policymaking and regulation, scholars and practitioners discern between two forms of knowledge: 'substantial policy knowledge' and 'process knowledge' (Chalmers et al. 2021, 3). In the context of legislative decision-making, LaPira and Thomas (2014) describe the former as the technical information over a specific policy domain allowing stakeholders to effectively influence and control policy issues. Rather, the latter concept describes the understanding of the bureaucratic mechanisms framing the policymaking process. Former regulators switching to the regulated industry provide the incumbent employer with essential expertise that guides industry professionals through the intricate legislative process and how to effectively comply with it (Chalmers et al. 2021). In the case of government regulation, the know-how garnered by a regulator could steer the incumbent private employer in effective compliance with norms, a practice that would improve social welfare.

2.1.3 Enhancing communication

This value-creating effect is strictly connected to the previous one. Developing a cross-disciplinary human and social capital, revolvers enhance communication and business activities between the public and private sector (Zaring 2013). In the context of government regulation, public servants equipped with experience in the regulated industry could provide the regulator with knowledge for grasping compelling challenges that deserve consummate monitoring and management (Yates and Cardin-Trudeau 2021, 15).

Additionally, hiring public servants with a background in the private sector helps the government to interface with the industry thanks to previous experience in the field. As emerged in an interview with Martin Duffel (the UK DMU Head of Dealing), in government debt management, the presence of public debt traders with an industry background embeds the public sector in enhanced communication with its counterparties – i.e. the dealer banks (UK DMO 2021a).

2.1.4 Networking

With effects varying across institutional frameworks, the revolving door phenomenon could provide the entry organisation with valuable professional connections. In the context of legislative decision-making, lobbying organisations strive for hiring former members of parliament due to their social network of influential contacts which potentially ease the access to the arenas of policymaking (LaPira and Thomas 2014; Yates and Cardin-Trudeau 2021).

According to the management science literature, interfirm mobility endows individuals with social capital (Dokko and Rosenkopf 2010). This affects the performance of the firms that they deal with by altering the degree of interaction with stakeholders. This argument could be applied to the revolving door phenomenon as well. As public administration has been undergoing a wave of modernisation towards a business rationale (Mcluaghlin, Osborne, and Ferlie 2002), public servants with an industry background could ease the implementation of this process due to their professional network. For example, a public administration department in charge of

implementing information technology solutions might benefit from the social capital of a public official with a background in the related industry.

Additionally, hiring public servants with an extensive network of contacts in capital markets could support corporations to expand their business opportunities. Capturing this potentially positive effect is the recent case involving the former CEO of the German DMU, Jutta Dönges, who was hired as chief financial officer and member of the supervisory board at Uniper (Uniper 2023). Due to the economic consequences of the Russian invasion of Ukraine, in 2022 the energy company fell into a severe crisis (Süddeutsche Zeitung 2022). To avoid Unipers' bankruptcy the German federal government nationalised the company (Die Zeit 2022). Due to her extensive experience in capital markets (Commerzbank 2020), the hiring of Jutta Dönges could be a means for establishing public-private synergies. Significantly, her network of contacts in the industry could steer the company in re-establishing a strong nexus with capital markets (Uniper 2023).

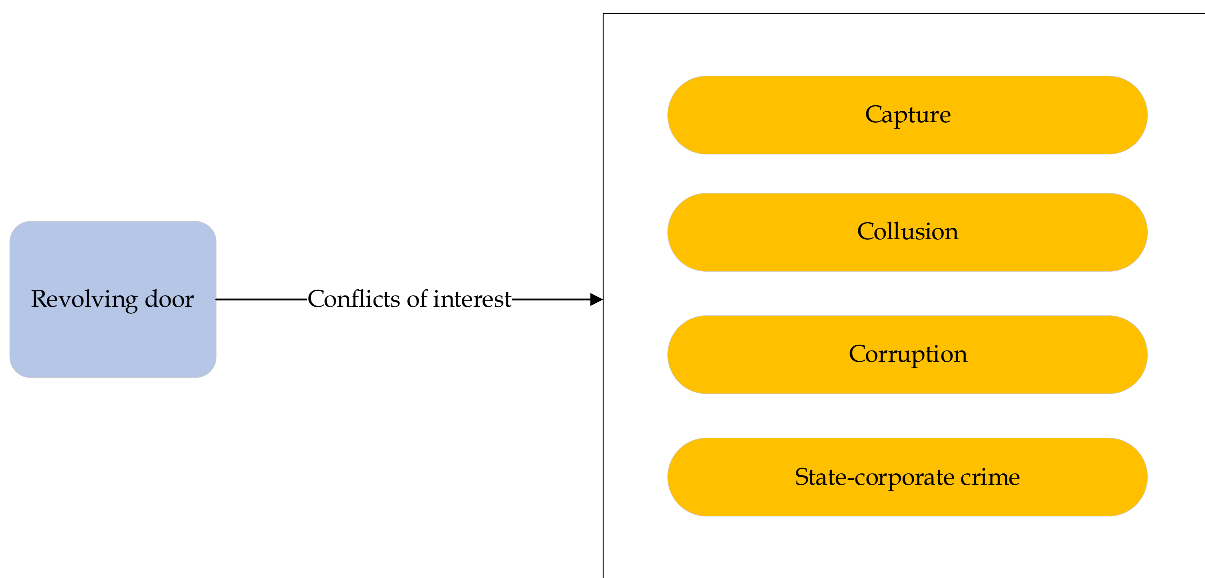
2.1.5 Other synergies

According to the literature in management science, interfirm movement of professionals constitutes a channel generating knowledge, innovation, and communication (Rao and Drazin 2002; Rosenkopf and Almeida 2003; Corredoira and Rosenkopf 2010). Applying such theory to the revolving door phenomenon, public servants with an industry background could bear the potential of triggering public sector's innovation. In public administration, hiring industry professionals with specific know-how would allow the government to develop in-house expertise rather than outsourcing to external consultants, a practice potentially leading to costly failures (Mazzucato and Collington 2023). For example, hiring data scientists that previously worked in the private sector could be a catalyst for innovation by developing projects modernising public administration. However, to achieve this purpose the government shall make the public sector more attractive by increasing its salary prospects (Mance 2023).

2.2 Risks

As depicted in Figure III-3, exacerbating conflicts of interest, the revolving door could act as a transmission channel for several pathologies that undermine the integrity of the public good. An incumbent government regulator might bias her office in prospect of a lucrative appointment at the regulatee (deHaan et al. 2015). Under such circumstances, the public official would cause regulatory capture by engaging in collusive schemes with the industry (Che 1995). Additionally, moved by rent-seeking motives, the regulator's behaviour is framed in corruption – i.e. abuse of office (Saurack 1998). If the biased regulatory activity is alleged causing social or environmental harm, the revolving door would channel state-corporate crime (Pons-Hernández 2022).

Figure III-3. Taxonomy of pathologies channelled by the revolving door phenomenon



Source: Author's own illustration

2.2.1 Pre- and post-public employment

According to the OECD, the World Bank, and the UN, the potential risks arising from the 'entry' or 'exit' side of the revolving door are: (*i*) rent-seeking behaviour, (*ii*) lobbying, (*iii*) switching sides, (*iv*) abuse of insider information or professional contacts, and (*v*) re-employing former officials (OECD 2010, 26–30; World Bank, OECD, and UNODC 2018, 26).

i. Rent-seeking behaviour

According to the theory of rent-seeking, whilst in office, public officials would have the incentive to bias their operations in prospect of a lucrative post-public appointment in the industry (J.-J. Laffont and Tirole 1991, 1091; Jean-Jacques Laffont and Martimort 1998). Yet research testing the validity of such hypothesis has yielded conflicting results. deHaan et al. (2015) provide empirical evidence that regulators of the Securities and Exchange Commission (SEC) tend to perform lenient regulatory activity prior switching to regulatees.

Despite side-contracting arrangements involving the private and public sector are challenging to identify (OECD 2010, 26; Zaring 2013, 516; Rex 2020),[3] the issue should not be overlooked. Indeed, even the suspicion that the industry could award public officials for biased office has the effect of undermining trust in institutions (OECD 2010, 26).

ii. Lobbying and intellectual capture

A potential side-effect of the revolving door is that former public officials could exploit their social ties with the public sector and expertise of the policymaking process to provide the industry with avenues of undue influence (LaPira and Thomas 2014; Chalmers et al. 2021). According to the theory of bureaucratic capital (Brezis and Cariolle 2019), deep knowledge of the policymaking process coupled with a precious network of government contacts could have the effect of facilitating the advocacy power of an organisation (Yates and Cardin-Trudeau 2021; Chalmers et al. 2021). The

[3] It requires a high burden of proof, since it is hard to distinguish the provision of a good service to a client as compliance or collusion (OECD 2010, 26).

academic literature and cases show that bureaucrats and legislators moving to the lobby industry provide their incumbent employer with a network of political connections established while in office (Vidal, Draca, and Fons-Rosen 2012; LaPira and Thomas 2014).[4] The argument holds for public officials with an industry background as well. Indeed, empirical evidence shows that incumbent regulators with experience at regulatees tend to be more lenient towards their former employer (Gormley 1979). More broadly, according to the theory of cultural capture, 'entry' revolvers could act by applying the mindset of the industry which would undermine impartiality in the decision-making process (Kwak 2013; Veltrop and de Haan 2014).

iii. Switching sides

'Switching sides' is a phenomenon arising when public officials who formerly represented the industry on an issue end up serving the other side on the same matter, and vice versa. It deserves attentive oversight in cases involving public procurement contractors and government regulation (OECD 2010). As epitomised by two cases involving financial regulators, 'switching sides' could exacerbate the risk of conflicts of interest from both the 'entry' and 'exit' side of the revolving door phenomenon. Upon quitting his office as executive director of the European Banking Authority (EBA), Ádám Farkas switched to a European financial sector lobby group – the Association for Financial Markets in Europe (AFME) (Demmke et al. 2020, 124–29). The appointment of the lawyer Alex Oh as director of the enforcement division at the Securities and Exchange Commission (SEC) sparked controversies due to her former positions as legal representative of private corporations – e.g., ExxonMobil, UBS, Bank of America (Beioley and Vandevelde 2021; Wolf 2021). Ultimately, Oh opted to step down to preserve public trust in the SEC (Mejdrich and Warmbrodt 2021).

iv. Abusing insider information and government contacts

Revolvers could leverage their network of government contacts and policy knowledge to provide their prospect employer with a source of undue influence. As

[4] E.g., the case of David Cameron who would have exploited his network of government contacts to perform advocacy activity for Greensill Capital (Smith and Pickard 2021).

exemplified by the lobbying industry, former members of parliament are more likely to join firms consulting interest groups by offering a network of influential contacts, knowledge of the legislative process, and government confidential information (Lazarus, Herbel, and Mckay 2013; LaPira and Thomas 2014).

Independently from the revolving door, incumbent public servants could breach insider trading regulations by exploiting their access to material, non-public information concerning the companies they regulate (Ahern 2017). This risk has been highlighted by a recent criminal case involving a public official of the German financial regulator – i.e. BaFin (BaFin 2021; Storbeck 2021).

Overall, the risk of undue influence exerted through inside information and government contacts is interconnected to the side-effects described in the previous sub-sections. Indeed, revolvers could exploit non-public information and/or network ties to: (*i*) enter a side-contracting arrangement with the industry, (*ii*) facilitate lobbying activity, (*iii*) exploit asymmetric information in negotiations, and (*iv*) engage in insider trading schemes.

v. Re-employing former officials

As previously mentioned, the three dimensions of the revolving door are interconnected. Of particular salience are the risks triggered by public servants with a background in a business who switch back to the same industrial sector after their office. Academic research that provides empirical evidence of the dynamic is limited. In the case of European financial regulatory authorities, Chalmers et al. (2021) describe how regulators' career trajectories exhibit multiple interactions with the industry both before and after tenure. The authors provide evidence that policy knowledge and the network of contacts are the determinants of multiple in and out transitions. Focusing on public debt managers, Silano (2022) identifies such a bidirectional flow with respect to the dealers for government securities.[5]

This in and out dynamic could further exacerbate conflicts of interest. For instance, a regulatee might support its employees joining a regulator, who then switch back to their original employer. This is because they could bring with them precious assets for

[5] See Essay II, Section 4, Subsection 4.1.3.

effective lobbying activity – i.e. a network of influential contacts and in-depth knowledge of the policy process (OECD 2010a, 30).

2.2.2 Side-activities

Public officials covering multiple offices constitute a source of actual and potential conflict of interest (OECD 2003, 66–69). The risk gains momentum in case responsibilities in the industry are in conflict with the public office: an incumbent government regulator holding a membership in the supervisory board at a regulatee. Under such circumstances, the actual source of risk is that the public official has a personal interest in the regulatee that could also manifest in the form of stock options or retirement schemes (World Bank, OECD, and UNODC 2018, 15, 26). The presence of such conflicts of interest could pose a threat to the integrity and impartiality of the public office, and might pave the way for capture and corruption. Furthermore, public servants holding multiple posts could be a vehicle for spreading government confidential information and exploiting their network of government contacts.

3. Revolving doors in government debt management: Benefits and areas of risk

Since the early 1980s the state has been undergoing extensive transformations in the management of central government debt by increasingly relying on capital markets. In order to enhance its credibility towards the financial industry, the government has been outsourcing the debt management task from either the Ministry of Finance (MoF) or central bank to fiscal agents – i.e. the DMUs (Currie, Dethier, and Togo 2003). Framed in a multilevel principal-agent problem,[6] the DMU ultimately manages public resources which affect taxpayers' welfare, under the supervision of the national parliament (Trampusch and Gross 2021).

Easing its access to funding, an increasing share of countries have been establishing a primary dealer system, the institutional framework regulating the partnership between the government's fiscal agent and capital markets (Arnone and Ugolini 2005). A primary dealership is a self-enforcing agreement wherein the DMU appoints a

[6] See the Introduction to the Dissertation.

financial institution - the 'dealer' - to actively participate in sovereign bond auctions and/or enhancing secondary market liquidity (World Bank and International Monetary Fund 2001, 168; Arnone and Ugolini 2005; FICC Markets Standards Board 2020, 4). The DMU-dealer dichotomous business models carry inherent conflicts of interest. On the one hand, the dealer's objective is to maximise operative profits (World Bank 2010a, 28; FICC Markets Standards Board 2020, 7); on the other, the DMU's remit is to minimise long-run government funding costs constrained to a moderate degree of risk (International Monetary Fund and World Bank 2001, 6). These features make the partnership an agency problem framed in a relational contract that requires the parties to preserve the agreement's mutual profitability (World Bank 2010a, 27; Sadeh and Porath 2020). Within such an institutional framework, the parties are locked up in the process of constantly reaching a compromise, under the DMU's guidance in charge of balancing the dealers' benefits with obligations (World Bank 2010a).

The parties' dichotomous business models and the *quid pro quo* nature of the partnership demonstrate inherent conflicts of interests which potentially affect the behaviour of public and private managers (FICC Markets Standards Board 2020, 7–8). Although scholars and policymakers have identified the risk and occurrence of collusion schemes among dealers (Rieber 1964; World Bank and International Monetary Fund 2001, 166; FICC Markets Standards Board 2020, 7), the potential rise of DMU-dealer collusion has been mentioned anecdotally (Dobry 1986; Lemoine 2013, 6).

Drawing on empirical evidence, cases, an interview, and questionnaires to a sample of DMUs,[7] the upcoming section provides a systematic account of the potential effects of the revolving door acting as a catalyst for: (*i*) value creation, and (*ii*) idiosyncrasies channelling conflicts of interest, capture and collusion.

3.1 Benefits

The rise of neoliberalism and a wave of debt crises[8] have been restraining the options available to the government for financing its debt (Borresen and Cosio-Pascal 2002; Preunkert 2020a). These socio-economic phenomena have been urging

[7] See (n 2).

[8] See the 1980s debt crisis, and the European debt crisis triggered by the 2008 financial meltdown.

sovereigns to manage central government debt in a highly financialised manner (Datz 2008; Fastenrath, Schwan, and Trampusch 2017).[9] As capital markets constitute the focal source of funding, it is of vital importance for DMUs to master the logic, rules, and tools of financial economics (Datz 2008). Effectively implementing such structural transformation requires the DMU to hire public servants with human and social capital developed through professional experience in the financial industry (Borresen and Cosio-Pascal 2002; Lemoine 2013, 16–17). Appointing public servants with an industry background allows the fiscal agent to: (*i*) internalise precious technical know-how gained in the field, (*ii*) enhance communication with the industry, (*iii*) establish valuable connections, and (*iv*) foster government's credibility towards financial markets.

3.1.1 Professionalisation-expertise

As afore-introduced, the revolving door is an institutional feature of modern government debt management. As highlighted by Lemoine (2013, 16-17) in context of the French DMU, gaining professional experience at dealer banks is a common trait of prospective public servants involved in operational business units. The revolving door would enhance the effectiveness of financial expertise-intensive areas – i.e. trading and risk management. Public debt managers equipped with knowledge on the functioning of sovereign debt markets are likely to provide the DMU with essential skills to effectively carry out its mandate. Such a value-creating effect of the revolving door was confirmed by surveys submitted to the Italian and Australian DMUs, and in an interview with the UK DMU. The results of the surveys show that public servants with experience at dealer banks are highly desirable for carrying out operations that require in-depth understanding of capital markets and involve the implementation of financial economics solutions (MEF 2021b; AOFM 2021a). As emphasised in an interview with the UK DMU Head of Dealing, Martin Duffell, the trading room and the risk management units are more effective and efficient by hiring public servants with an industry background (UK DMO 2021a).

[9] See (n 6).

3.1.2 Communication

Complementary to expertise, the revolving door would have a positive effect on the communication between the DMU and the dealers. As arose in the interview with the UK DMU, hiring public servants with industry experience would endow the fiscal agent with enhanced communication skills whilst interfacing with private counterparties (UK DMO 2021a). Such feature would gain momentum in the public servant's proximity to the dealers. In their day-to-day operations, public debt managers active in the trading room interface with the industry intertwined in a web of social customs and adopting a highly technical language (Abolafia 1996; MacKenzie et al. 2020). Public servants with experience in the field are more likely to enhance the DMU's communications skills, assuring the effective execution of the debt management policy. In this vein, the revolving door would help to fill the information gap between the public and private sector by establishing precious value-creating synergies. Beyond the trading room, the revolving door could help to enhance interparty communication in quarterly meetings over the formulation of the debt management strategy. In such operational context, risk managers and economists with a background at the dealers might better interpret the views of the industry on a specific issue and develop a negotiation strategy reaching a compromise. Consequently, the revolving door could constitute a source for enhancing the effectiveness and efficiency of the DMU.

3.1.3 Professional networking

Countries at an early stage of development might experience hurdles in the establishment of a sovereign debt market (Arnone and Ugolini 2005; World Bank 2010a). Building a primary dealer system, the government might suffer from a low degree of capital markets' trust, a feature making it difficult to attract dealer banks to enter the partnership. The revolving door could act as a mechanism that supports developing countries to overcome such a critical stage. Establishing a DMU led by a former financial industry professional might assist the government to expand its network of primary dealers and signal credibility to capital markets. The case of the director general of the Nigerian DMU, Patience Oniha, supports this argument. Upon

developing a brilliant career at dealer banks which spanned over 22 years, she took control of the DMU and has brought several achievements for Nigerian sovereign debt markets. Significantly, she steered the development of a debt capital market by engaging with the industry and other stakeholders (Debt Management Office - Nigeria 2023). One might contend that apart from providing the fiscal agent with precious human capital, due to her valuable connections at dealer banks, she has been contributing to the development of a market infrastructure for government funding.

3.1.4 Enhancing credibility

This positive effect is interconnected to the previously introduced ones: enhancing the DMU's professionalisation, communication, and network of professional contacts would foster the organisation's credibility towards financial markets. Due to the government's surging reliance on capital markets to finance its debt (Preunkert 2020a), it must strive for developing a reputation as a trustworthy creditor. Signalling the dealers independence from the political cycle, an increasing share of policymakers have been establishing a fiscal agent at government arm's-length (Currie, Dethier, and Togo 2003; Sadeh and Porath 2020). Likewise, the revolving door phenomenon could constitute an effective mechanism endowing the DMU with enhanced credibility. As inferred from the interview with the UK DMU, forming a fiscal agent with highly skilled professionals supports the organisation's credible commitment to meet market demands and effectively execute the debt management policy (UK DMO 2021a). Additionally, hiring senior debt managers who worked for the industry could mean enhancing the credibility of governments with high outstanding debt and/or with an incumbent political elite committed to not developing a sustainable budget policy. Epitomising such potential effect of the revolving door is the recent appointment of Riccardo Barbieri Hermitte as director of the Italian DMU, with experience at various global dealer banks – i.e. JP Morgan, Morgan Stanley, Merrill Lynch, and Mizuho (Colombo 2023; MEF 2023). The public official's expertise, communication skills, and professional network are most likely to enhance the credibility of the Republic of Italy towards international capital markets. As the country exhibits a ballooning outstanding debt and a government apparently committed to adopt an unorthodox stance towards European fiscal rules (Migliaccio 2023; Minenna 2023a).

3.2 Sensitive operations and risks

Complying with think tanks' and non-profit ethics organisations' guidelines, and methodological research, identifying DMU's sensitive areas, the study focuses on 'grey' operations with heightened government-industry interaction (OECD 2003, 28–29; Transparency International 2011; Zinnbauer 2015). This approach allows steering supervisory and regulatory activity towards areas where the risk of idiosyncrasies is significant, thereby preserving the value-creating effects of the revolving door.

3.1.1 Debt management policy formulation

Accountable to the domestic parliament (Trampusch and Gross 2021), the formulation and approval of the debt management policy is at the discretion of the DMU operating on behalf of its chief executives (Williams 2010). Although their remit varies across jurisdictions, shaping the debt management strategy, DMUs are empowered with: (*i*) scheduling the auction calendar, and selecting (*ii*) the auction type, (*iii*) the amount object of issuance, (*iv*) the type of instrument to be issued, and (*v*) the asset maturity (Williams 2010; Sadeh and Porath 2020, 744).

The policy formulation stage is the result of consultations among public officials, the dealers, and other stakeholders (Arnone and Ugolini 2005; Sadeh and Porath 2020, 744),[10] wherein the parties exchange views over market developments and their potential impact on public debt (World Bank 2010a; United Kingdom Debt Management Office 2021, 15; US Department of the Treasury 2022, 14). Given their pivotal role as government partners and knowledge of market trends, the dealers' position is the most influential in shaping the government funding strategy. Replying to questionnaires submitted to the Australian and Italian DMUs, public debt managers claim to meet the dealers' preferences in the short run, preserving the long term government debt management strategy (AOFM 2021a; MEF 2021b). Conforming the demands of capital markets, the DMU complies with multilateral financial institutions' recommendations (World Bank and International Monetary Fund 2001, 175).[11]

[10] Minutes of consultation meetings highlight the presence of pension funds among other stakeholders (UK DMO 2020).

[11] Operatively, this translates in issuing specific types of securities embedded in *ad hoc* maturity profiles (Sadeh and Porath 2020, 743).

Although such policy design aims to guarantee optimal allocation of sovereign bonds, the risk is that DMUs could systematically mimic the industry's preferences being an object of capture (Arnone and Ugolini 2005, 51; Sadeh and Porath 2020, 756).

Exacerbating such risk is that, across OECD jurisdictions, stakeholder meetings lack transparency. Exceptions are the UK and the US, where DMUs disclose minutes of quarterly meetings.[12] Nevertheless, in the US, the dealers' advisory committee – the Treasury Borrowing Advisory Committee (TBAC) – works under confidentiality whilst liaising with public debt managers (McCormick 2019). In the UK, the parties might arrange behind closed door meetings held under the Chatham House rule (National Audit Office 2007, 11; IPE 2014; United Kingdom Debt Management Office 2021, 15).[13] In France, the Strategic Committee within the DMU hosts meetings that gather senior public debt managers and top bond managers from the most active primary dealers (Currie, Dethier, and Togo 2003, 50).

Limited transparency aims to keep sensible information confidential and eases communication among stakeholders (National Audit Office 2007, 11). However, the DMUs' dependence on financial markets coupled with the dealers' weight in the policy formulation stage could limit public debt managers' options in the decision-making process. Besides, as highlighted by recent cases, such institutional setting could exacerbate the risk of wrongdoing. In the US, the TBAC has been under regulatory scrutiny as dealer representatives engaged in insider trading schemes by abusing confidential information acquired in meetings with public officials (SEC 2003; McCormick 2019).[14]

A lack of transparency, coupled with heightened public-private interaction, makes the revolving door a potential source of risk for the integrity and impartiality of the

[12] See, for example, the UK DMO (2020) and TBAC (2022).

[13] Under the Chatham House rule 'participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed […]' (Chatham House 2022).

[14] Two Goldman Sachs colleagues, Peter Davis and John Youngdahl, caused the temporary disruption of the US treasury bonds market. Davis, as member of the TBAC, disclosed material, non-public information to Youngdahl, who ultimately executed the fraudulent financial transaction; see SECURITIES AND EXCHANGE COMMISSION v. PETER J. DAVIS, JR., JOHN M. YOUNGDAHL and STEVEN E. NOTHERN (United States District Court for the Southern District of New York, Civil Action No. 03-CV6672(NRB)).

debt management policy. Due to several cases of 'switching sides' among CEOs and senior positions (Silano 2022a),[15] the phenomenon deserves enhanced monitoring as it could exacerbate the risk of: (*i*) industry capture, (*ii*) collusion, and (*iii*) abuse of confidential information and government contacts.

3.1.2 Selection of dealers

The appointment of the dealers as government partners complies with rules and criteria varying across jurisdictions. Overall, as advocated by multilateral financial institutions, prospective specialists must hold: (*i*) a strong reputation on global capital markets and (*ii*) an adequate capitalisation guaranteeing the widespread distribution of sovereign bonds (World Bank and International Monetary Fund 2001, 176; World Bank 2010a, 10–11).

In OECD countries, the dealers' selection process exhibits varying degrees of transparency. The DMUs in Italy, the UK, and the US provide exhaustive technical criteria evaluating prospect dealers' applications (MEF 2021a; United Kingdom Debt Management Office 2021; Federal Reserve Bank of New York 2022). On the other hand, in Belgium and Ireland, agencies do not provide either clear selection parameters or details on its process (Reuters 2015; NTMA 2021b; Belgian Debt Agency 2022, 13). Overall, DMUs across OECD countries suffer from lack of transparency in the decision-making process concerning the dealer's appointment and the public servants accountable for it. In a press release, the UK DMU states that the details of the partnership are discussed behind closed doors and in bilateral consultations involving the parties' senior staff (United Kingdom Debt Management Office 2021, 18).

As stated in the Portuguese DMU's code of conduct, the selection of specialists deserves attentive oversight due to the heightened risk of potential conflicts of interest (IGCP 2009, 6). Significantly, the risks triggered by the revolving door could undermine the integrity and impartiality of the decision-making process. For instance,

[15] For example, the former CEO of the Greek DMU, Christoforos Sardelis, moved to Banca IMI as general director accountable for managing Greek sovereign debt. As a side-activity, the former CEO of the German DMU, Jutta Dönges, held a seat in the supervisory board of the dealer Commerzbank AG. Robert Stheeman, current CEO at the UK DMU, worked for the dealer Deutsche Bank as executive director of the fixed income unit (HM Treasury 2002) – for more details, see Essay II and the related data set.

incumbent public officials could advocate the appointment of a specific dealer moved by rent-seeking motives; and 'entry' revolvers could act as lobbyists for the industry, due to personal interests in the dealers or intellectual capture.

Consequently, the revolving door might exacerbate the issue of adverse selection, a feature framing the dealers' appointment (World Bank 2010a, 10–13). Idiosyncrasies in the dealers' selection process could pose a risk for the integrity of the market for government bonds. Indeed, the appointment of a financial institution that does not fulfil international standards might mean impairing the government's long-run objective of issuing debt at a moderate degree of risk.

3.1.3 Primary dealers' privileges

Since primary dealerships require governments to strike a balance between the dealers' obligations and benefits (World Bank 2010a, 27), an adequate management of the awards is crucial for the partnership to endure.

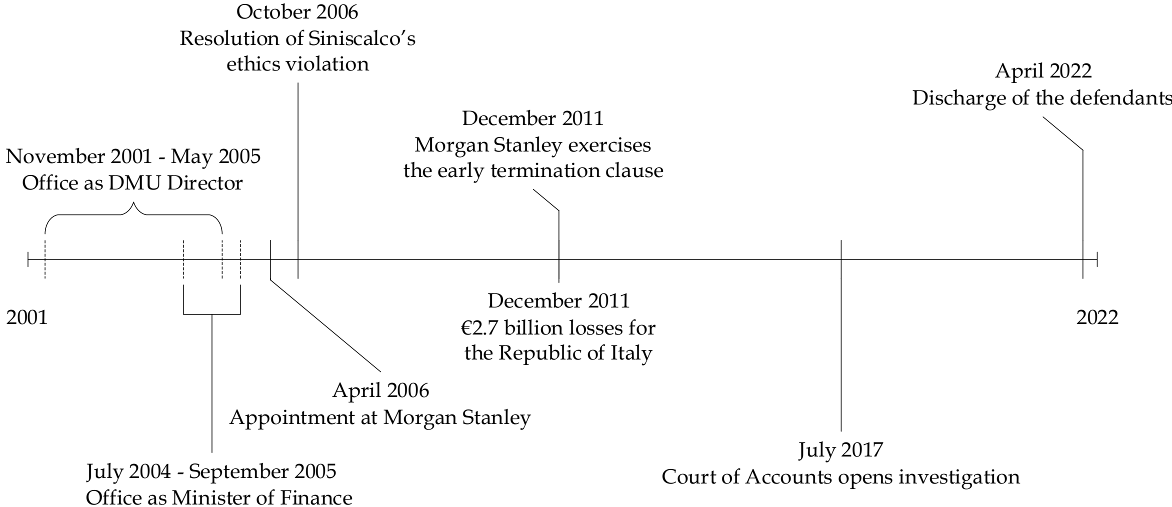
Although DMUs' formal benefits vary across jurisdictions, the most diffused are: (*i*) to be a preferential counterparty in derivative contracts and privatisations, (*ii*) the exclusive participation in syndicated deals, and (*iii*) the right to engage in bilateral meetings with DMUs (World Bank and International Monetary Fund 2001; World Bank 2010a; Preunkert 2020b). Whilst formulating the debt management policy, the parties negotiate the terms of syndicated offerings and derivative contracts. Awarding the dealers with benefits, most DMUs rely on league tables tracking the industry performance on the primary and secondary market (World Bank 2010a). Overall, the disclosure of evaluation criteria is a complex issue and generally lacks transparency (World Bank 2010a, 32). As has emerged from recent controversial cases, prosecutors and audit committees could perceive such deals as a risk for the integrity and sustainability of sovereign debt (Corte dei Conti 2019; Stride 2020).

i. Italian derivative case

In 2017 the Italian Court of Accounts put on trial the DMU's CEOs and former Finance Ministers, Vittorio Grilli and Domenico Siniscalco, for loss of revenue (Reuters 2017). The allegation was that derivative contracts signed with Morgan Stanley between 1995 and 2005 were drafted embedded in early termination clauses,

deliberately penalising the position of the DMU (Corte dei Conti 2019). In 2011, during the European sovereign debt crisis, the bank exercised the clause causing taxpayers a loss of €2.7 billion (Corte dei Conti 2019, 8) – see the timeline in Figure III-4. Although the trial ended with the discharge of all defendants for lack of jurisdiction (la Repubblica 2022), the case remains controversial due to Domenico Siniscalco's post-public appointment at Morgan Stanley.

Figure III-4. The case Siniscalco



Source: Author's own analysis

As per the timeline depicted in Figure III-4, between 2001 and 2005, Siniscalco was the DMU executive accountable for subscribing the derivative contracts object of dispute with Morgan Stanley (Corte dei Conti 2019, 5–10). Significantly, as assessed by the Italian Court of Accounts, Siniscalco was responsible for signing derivative contracts with a speculative purpose, rather than focusing on sovereign debt restructuring (Corte dei Conti 2019, 10). After his office as Minister of Finance,[16] he then joined the bank in April 2006 as managing director and vice chairman liaising with key clients across Europe and emerging markets (Morgan Stanley 2006).[17] The career move caused a ruling from the Italian antitrust authority for lack of compliance

[16] Siniscalco was Minister of Finance between July 2004 and September 2005 (Morgan Stanley 2016).

[17] Morgan Stanley imposed on Siniscalco a five-months cooling-off period towards Italian clients (Morgan Stanley 2006).

with ethics requirements (AGCM 2006).[18] The case of Siniscalco constitutes a source of risk for public integrity and impartiality gaining momentum as the former DMU director was in office: he could have managed derivative contracts signed in 2003 in the interest of Morgan Stanley. Being a case characterised by intertemporal conflicts of interest, the former public official could have provided the dealer with non-public information or bureaucratic expertise by advising the exercise of the early termination clause in 2011. Furthermore, framed in potential rent-seeking behaviour, the career move could be perceived as an award for favouring the dealer while in office. Although derivative deals are useful instruments for hedging of government's borrowing costs, these are a safe source of income for dealers charging countries with high outstanding debt for taking high credit and market risk exposure (Risk 2003).

Beyond highlighting the risks of the revolving door, the case sheds light on the conflicts of interest inherent in the role of dealer: entering a partnership for the management of government debt contradicts being counterparty in derivative contracts, as the industry might exploit asymmetries of information (Corte dei Conti 2019, 23). This issue first arose as Goldman Sachs signed derivative deals with the Greek DMU in order to support Greece to abide by the terms of the Stability and Growth Pact (Risk 2003). In this context, emblematic is the case of the former DMU director, Petros Christodoulou, whose professional background at Goldman Sachs allegedly equipped the fiscal agent with precious connections for designing and stipulating opaque derivative deals (Foley 2011).

ii. British syndicated deals

Launching a new type of debt security or ensuring funding in times of crisis (World Bank 2015), DMUs might appoint a restricted set of dealers to participate in syndications, an auction format entailing lucrative fees for the panel of organising banks (World Bank 2010a; AOFM 2019; Reuters 2020). In November 2020 the UK Treasury Committee filed an investigation on the syndicated deals scheduled by the DMU between 2011 and September 2020 (Stride 2020). The Committee's Chair, Mel Stride, addressed the DMU's CEO, Robert Stheeman, over the suspicion that the

[18] For an assessment of the implementation quality of revolving door laws, see the upcoming Essay IV.

dealers would have adopted market strategies which could have penalised taxpayers. The CEO replied that proving such allegation was beyond the DMU's remit as it does not include market supervision (Stheeman 2020). Nevertheless, it is in the DMU's interest to oversee the dealers' behaviour to prevent potential negative externalities (World Bank 2010a, 33).

Furthermore, Stride asked how the syndicated fees are set. Stheeman did not provide a clear rationale, declaring that these are meant to repay the dealers for their service (Stheeman 2020). As emerged in an interview with the UK DMU's Head of Dealing, the fees would be set according to a benchmark adopted by DMUs across the EU (UK DMO 2021a).

As highlighted by corruption cases that involve consultancy companies (World Bank Group 2011), lack of a clear rationale behind setting the fees could exacerbate the risk of pathologies triggered by potential conflicts of interest. In this case, the UK DMU chief, Robert Stheeman, could channel the risks of the 'entry' side of the revolving door. Prior to his appointment as CEO in 2002, he was director of debt capital markets of Deutsche Bank AG in London, a primary dealer since 1992 and active member of the syndicated panel.[19] The main risk is that, due to cultural capture or acting as a lobbyist, the CEO could have institutional room to set the fees overly favouring the dealers. Within the partnership's logic, such collusive behaviour would foster reciprocity and motivate the dealers behaving consummately. Indeed, due to exogenous factors which erode profit margins, the industry might opt to exit the dealership - e.g., cost of regulations or low interest rates.[20]

3.1.4 Trading

The trading room is the DMU's business unit responsible for executing transactions (Borresen and Cosio-Pascal 2002). Public traders interact with the dealers via the bond

[19] Upon submission of a freedom of information request, the UK DMU provided the historical archive of dealers. The list of banks participating in each syndicated panel is available on the UK DMU's institutional website, for some cases, see (UK DMO 2010; 2021b).

[20] In 2015 Deutsche Bank and Credit Suisse left all their primary dealerships in Europe due to higher costs of regulation (Reuters 2015). The COVID-19 pandemic acted as a catalyst exacerbating such trend (Financial Times 2020). For an analysis of the micro foundations framing the primary dealership, see Essay I.

desk and recurring bilateral meetings (United Kingdom Debt Management Office 2021, 15; UK DMO 2021a). As shown by empirical research (Silano 2022a),[21] across traders the revolving door gains particular momentum. The increasing marketization of government debt turned the professional flow between the DMUs and dealers common practice and desirable (Datz 2008; Lemoine 2013, 16–17). In an interview, the UK DMU Head of Dealing, Martin Duffell, claimed the revolving door helps to establish public-private synergies by easing the parties' communication and fostering the DMU's credibility towards financial markets (UK DMO 2021a). However, lack of oversight over the parties' professional ties could overlook potential risks.

Empirical evidence reports several cases of former public traders switching to the dealers' fixed income business unit, and vice versa (Silano 2022a).[22] Cases of 'switching sides' could undermine the integrity of sovereign debt: revolvers might first transact a position for the government and then manage it for the industry. Among potential risks is the public servant adopting a trading strategy favouring the industry in prospect of a remunerative position. Additionally, the revolving door across trading rooms could exacerbate the risk of insider trading by abusing confidential information and professional ties. Intensifying such a hazard is that DMUs do not limit means of communication between the dealers and public debt managers to official platforms. For example, the UK DMU encourages the dealers to reach public debt managers on an outside telephone number (United Kingdom Debt Management Office 2021, 15). As highlighted by recent insider trading breaches (Walker, Massoudi, and Morris 2022; Walker 2022), perpetrators could rely on alternative messaging platforms to exchange material, non-public information.

3.1.5 Auditing

The national parliament oversees DMUs operations mainly through *ad hoc* committees (Trampusch and Gross 2021).[23] Additionally, a few jurisdictions have established internal audit committees in DMUs – e.g., Austria and Ireland. As part of DMUs' internal oversight mechanism, the audit department must guarantee integrity

[21] See (n 1).

[22] See Essay II, Section 4, Subsection 4.2.

[23] See, for instance, the House of Commons Treasury Committee in the UK.

and impartiality in their operations, and the presence of a revolving door could be a source of conflicts of interest.

Additionally, internal auditors who, whilst in office, cover positions at the dealers could be a source of actual and potential conflicts of interest. Exacerbating such risk is that public servants might have personal pecuniary interests in the dealer they are actually serving – e.g., stocks. Overall, such conjunction of posts could hinder the impartiality and integrity in the performance of public duties. Empirical evidence shows that high-ranking incumbent public debt managers in charge of auditing tasks hold senior posts at the dealers, as members of the supervisory board (Silano 2022a).[24]

4. Policy proposals

Stemming from the previous risk-benefit analysis, the upcoming section advances policy proposals curbing the potential side-effects of the revolving door while preserving its value-creating power. The main argument is that, to carry out a highly financialised task, the DMU needs the human and social capital of industry professionals. Therefore, policymakers shall consider that burdensome regulations might have the unintended effect of turning the public service less attractive, with negative implications for the management of government debt. The overarching regulatory objective is to strike a sustainable and effective balance between public integrity and individual freedom of employment. Hence, rather than amending revolving door laws by making them more rigid, policymakers shall open the black-box in the DMU opaque areas of governance identified in Section 3. Additionally, DMUs shall foster the organisation's ethical culture by expanding the scope of codes of conduct and training public officials.

[24] Career data gathered in Essay II shows that members of the DMU's supervisory board covered the same position at the dealers. See the cases of Jutta Dönges, CEO of the German DMU, and Eva Eberhartinger who is member of the supervisory board of the Austrian DMU, who both covered analogous positions at the dealers whilst in office.

4.1 DMUs governance

4.1.1 Transparency

The systematic analysis of Section 3 identifies areas of governance entailing a black-box. As encapsulated by the case involving the US DMU, meetings taking place behind closed doors hosted by the TBAC carry a risk of leaks outweighing the benefits arising from the parties' exchange of market views (McCormick 2019). Additionally, as magnified by the cases of derivative and syndicated deals, lack of transparency in the decision-making process, the presence of a revolving door, and dense interface with the industry could exacerbate the risk for collusion schemes to materialise.

Curbing such potential risk, the policy proposal is that DMUs shall disclose detailed information on the decision-making process related to the following operations: (*i*) formulation of the debt management policy, (*ii*) selection of the dealers, (*iii*) drafting derivative deals, and (*iv*) designing syndicated auctions. Information shall be available on institutional websites and, in case of high confidentiality, public debt managers shall exclusively communicate with the ethics officer or the specialised parliamentary committee – e.g., the Treasury Committee in the UK.

With regard to the decision-making process related to the debt management strategy, public officials shall provide minutes of meetings with stakeholders stating the policy preferences of participants as per the UK DMU (UK DMO 2020). Concerning the dealers' selection process, DMUs shall issue detailed reports describing quantitative and qualitative factors justifying the appointment or dismissal of dealer banks as well as the public debt managers accountable for this task. Signing derivative deals, DMUs shall provide the audit committee with a report justifying their strategy and minutes of meetings with the dealers. With regard to syndicated auctions, DMUs shall disclose a clear rationale for setting the dealers' fees and a list of accountable debt managers. Lastly, preventing insider trading schemes from materialising, treasury traders who communicate with the dealers' trading desk shall use canonical messaging platforms (i.e. Bloomberg) instead of their personal phone,[25] thereby allowing regulators to easily identify potential misconduct.

[25] As stressed in Section 3, Subsection 3.1.4, the UK DMU allows dealer representatives to reach public debt managers on their personal phone (United Kingdom Debt Management Office 2021, 15).

4.1.2 A DMU lobby register

Overall, enhancing transparency, meetings with the industry that happen behind closed doors shall be notified to the fiscal agent's ethics officer. The recommendation is to introduce a lobby register that takes recent reforms undertaken by European institutions as role models (Greenwood and Dreger 2013; European Union 2022). This initiative would support the identification and management of potential conflicts of interest by tracking public officials' meetings with dealer banks. Public servants shall report their meeting to the organisation's ethics officer, who shall then transfer the data to the jurisdiction's ethics body. The information would support ethics officers to evaluate the intensity and nature of the risks inherent in a revolving door case.

4.1.3 Internals codes of conduct

Across OECD countries only a restricted share of DMUs have an *ad hoc* code of conduct in force.[26] Codes of conduct are apt at building an ethical culture in an organisation, rather than effectively deterring misconduct (Dávid-Barrett 2015). In the UK and the US, codes of conduct regulate two dimensions of the revolving door: side-activities and post-public business appointments. Both jurisdictions require public officials who are willing to leave the organisation to disclose their intention to the ethics officer, who shall then evaluate whether the transition carries potential conflicts of interest. In the UK, the regulation applies to public debt managers of any seniority. Upon cases of insider trading involving public servants who exploited professional connections at the dealers, the US DMU expanded the scope to low-ranking public servants (The Wall Street Journal 2016).[27] Apart from Portugal, codes of conduct do not provide a list of areas deserving scrutiny due to heightened risk of conflicts of interest. The Portuguese DMU (IGCP) stresses that the decision-making process

[26] These are France, Ireland, Italy, Portugal, the UK, and the US - see Appendix A.

[27] Jason Gross, a former employee at the US DMU, provided confidential information to his former supervisor Rohit Bansal, who had previously switched to the dealer Goldman Sachs (Raymond 2016). Joseph Jiampietro, a former Goldman Sachs banker, benefitted from government confidential information provided again by his former colleague Rohit Bansal (Franklin 2022). In the latter case, Bansal disclosed confidential information to Jiampietro in order to provide Goldman Sachs with a competitive advantage.

surrounding the selection of specialists is particularly sensitive and deserves oversight in order to prevent the rise of conflicts of interest (IGCP 2009).

Addressing codes of conduct's lack of completeness, the policy proposal is to update these highlighting the potential risks of governance areas that entail dense communication with the dealers and opacity. The suggestion is to structure codes of conduct taking the Portuguese DMU as a role model but to expand the list of sensitive areas with those identified in Section 3, Subsection 3.2. Additionally, addressing the potential risks of the revolving door, policymakers shall ponder to manage the phenomenon as in the UK and US DMU, and to ethically train public debt managers accordingly.

5. Conclusion

Casting light on the operations of government agencies in charge of managing sovereign debt (DMUs), this essay systematically assesses the effects of the revolving door phenomenon and designs cost-effective regulatory solutions dealing with potential risks.

Drawing on cases, empirical evidence, questionnaires and an interview, the study dissects, on the one hand, the revolving door's value-creating effects and, on the other, it identifies sensitive agency operations wherein the phenomenon could act as a propagation channel for conflicts of interest, industry capture, and collusion.

The research finds that, due to the government's extensive reliance on capital markets in the management of sovereign debt, the revolving door is a source of expertise, valuable connections, and credibility supporting the government in carrying out a highly financialised task. However, as magnified by case studies, the DMU hosts areas of governance that deserve supervision and oversight as the revolving door's side-effects could materialise. The findings highlight how the phenomenon could exacerbate the risk of conflicts of interest, capture, and collusion in operations that entail heightened interface with the dealers and/or opaque decision-making process. In particular, policy areas deserving enhanced oversight and transparency are: (*i*) the selection of dealers, (*ii*) the debt management policy formulation, (*iii*) the governance of the dealers' benefits, (*iv*) trading, and (*v*) internal auditing.

Mitigating the risks of the revolving door, the study advances an approach aiming at preserving the phenomenon's value-creating effects. Focusing on DMUs internal governance, policy proposals call for transparency in the identified operations by enhancing disclosure of the related decision-making process. Additionally, enhancing the organisation's ethical culture, internal codes of conduct shall highlight the risk of conflicts of interest inherent in the identified areas of governance and train public debt managers accordingly. Curbing the potential risks arising from bilateral meetings that take place behind closed doors, policy recommendations advocate the introduction of a lobby register tracking public debt managers' consultations with the industry and the topics discussed therein.

Delivering a taxonomy of risky governance areas within DMUs and envisioning solutions, this study aims at providing policy guidance that guarantees the integrity, impartiality, and sustainability of government debt management. Designing a regulatory approach that indirectly deals with the revolving door phenomenon, this essay aims at steering policymakers through the ongoing process of modernising the management of conflicts of interest. Significantly, it accounts for the transformations undergone by public administration in the last decades making it more business-like – i.e. see the rise of New Public Management (Mcluaghlin, Osborne, and Ferlie 2002; Diefenbach 2009). Providing a nuanced assessment of the revolving door, this study advances the literature on the phenomenon blamed for excessively focusing on its negative effects (Rex 2020; Seabrooke and Tsingou 2020; Chalmers et al. 2021).

Future research shall investigate the potential risks and benefits of the revolving door in other institutional settings. Furthermore, studies shall assess whether introducing transparency policies could help dealing with the phenomenon without enacting additional norms in an already sophisticated regulatory framework (Demmke et al. 2020). In this regard, research shall evaluate the effectiveness of the regulatory framework by assessing the extent to which restrictions are actually implemented – see the upcoming Essay IV.

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Appendix A

Legal sources

DMU's Codes of Conduct

France

Agence France Tresor, Code of Conduct

Ireland

Standards in Public Office Act, 2001

Civil Service Code of Standards and Behaviour, 2004

Italy

Codice di comportamento del Ministero dell'Economia e delle Finanze, 2015

Portugal

Treasury and Public Debt Management Agency, IGCP, E.P.E. – Code of Conduct (2009)

UK

United Kingdom Debt Management Office - Standards of propriety - Version 1.3, October 2021

US

Federal Reserve Bank of New York – Code of Conduct, 2022

Appendix B

Survey submitted to the Australian Office of Financial Management (AOFM)

- In your opinion, what are the main advantages and disadvantages of having a primary market featuring the presence of Registered Bidders (hereafter 'Bidders')?

- In a strategic meeting over the formulation of the debt management policy, among the stakeholders' preferences, to what extent does the Bidders' position affect the policy outcome? Generally, are the positions of the Bidders and AOFM aligned? Would you be so kind as to make some examples?

- According to the International Monetary Fund (IMF), the World Bank, and the Organisation for Economic Co-operation and Development (OECD), the Bidders' professional logic (i.e. financial industry's approach to tasks) is present in

organisations with the mandate of raising public finance – DMO, Ministry of Finance, Central Bank. Is it important that the debt management task is carried out implementing the industry's expertise? Why?

- Recruiting new employees, is it important for the AOFM to have candidates who nurtured expertise at the Bidders? Why?

- How has the Treasury awarded the Bidders with privileges? Are these the result of negotiations between the AOFM and the Bidders? If yes, would you be so kind as to describe the related negotiation process and if it must abide by regulations?

- Could you please describe what the Bidders' privileges are? And according to what rationale does the AOFM decide when to award the Bidders with those?

Survey submitted to the Italian Ministry of Economy and Finance (MEF)

- Secondo Lei, quali sono i principali vantaggi e svantaggi derivanti da un sistema basato sugli Specialisti in Titoli di Stato ('primary dealers')?

- Durante un meeting strategico (es. formulazione della strategia di finanziamento della Repubblica, incontri pre-asta) richiedente la collaborazione con gli Specialisti, tra le posizioni dei vari stakeholders, quanto incide la preferenza degli stessi sulla formulazione della strategia finale? Generalmente, le posizioni del Tesoro e degli Specialisti sono allineate?

- Il Fondo Monetario Internazionale (IMF), la Banca Mondiale e ricercatori hanno rilevato la presenza degli Specialisti in meeting strategici e delle loro logiche professionali fra i funzionari di istituzioni aventi il mandato di gestire le aste e il debito pubblico – Ministero del Tesoro, Banca Centrale, Ufficio di Debito Pubblico. È importante per gli Specialisti che la collaborazione si svolga come sopra descritto? In base alla Sua esperienza, la forte presenza degli Specialisti nelle attività del tesoro è più positiva o negativa per il bene pubblico?

- Come sono stati stabiliti i privilegi degli Specialisti (Titolo 2, Art. 9, Decreto Dirigenziale n. 993039 – 11 novembre 2011)? Sono il risultato di negoziati tra il Tesoro e gli Specialisti? Se sì, può gentilmente descrivere la procedura negoziale e se deve essere condotta in conformità con la legislazione?

- In che modo viene stabilito quando elargire i privilegi agli Specialisti? Ad esempio, come viene deciso quando consentire agli Specialisti l'accesso esclusivo alle riaperture riservate delle aste dei titoli di Stato?

- Per quanto concerne l'assunzione di nuovi funzionari incaricati alla gestione del debito pubblico, è importante per il Tesoro avere candidati che abbiano maturato capacità professionali presso l'industria finanziaria? Se sì, perché?

Interview with the UK Debt Management Office

- In your opinion, what are the main advantages and disadvantages of having a primary dealer system in force?

- In a strategic meeting over the formulation of the debt management policy, among the stakeholders' preferences, to what extent does the primary dealers' position affect the policy outcome? Generally, are the positions of the dealers and DMO aligned? Would you be so kind as to make some examples?

- According to the International Monetary Fund (IMF), the World Bank, and the Organisation for Economic Co-operation and Development (OECD), the dealers' professional logic (i.e. financial industry's approach to tasks) is present in organisations with the mandate of raising public finance – DMO, Ministry of Finance, Central Bank. Is it important that the debt management task is carried out implementing the industry's expertise? Why?

- Recruiting new employees, is it important for the Treasury to have candidates who nurtured expertise at primary dealers? Why?

- How are the dealers' privileges set? Are these the results of negotiations between the DMO and dealers? If yes, would you be so kind as to describe the related negotiation process and if it must abide by regulations?

- According to what rationale does the DMO decide when to award the dealers with privileges? And besides, how do the DMO and the dealer reach an agreement over the fees to apply for a syndicated auction? Is there any official rationale underpinning the fees' setting process?

IV

The effectiveness of revolving door laws: Evidence from government debt management*

Abstract

The soaring diffusion of the revolving door phenomenon has prompted regulatory intervention. Focusing on executive branches in charge of issuing and managing government debt – debt management units (DMUs) –, this essay delivers a case study assessing the effectiveness of revolving door restrictions. It does this by evaluating enforcement quality and public servants' compliance. In government debt management, the revolving door denotes the career transition of employees working at the dealers to DMUs, and vice versa. Drawing on a comparative legal analysis across eight OECD countries and career data from a sample of public debt managers, this study provides empirical evidence that although legislations curbing the revolving door are in force, these are poorly enforced. Reasons for this include lack of effective monitoring, credible deterrent mechanisms and adequate ethical culture. Addressing shortcomings, policy proposals advocate the establishment of independent oversight bodies endowed with sanctioning power, and measures enhancing the transparency of public officials' career moves. Identifying and plugging loopholes in the framework in force, this study aims at steering policymakers through the ongoing process of modernising conflict of interest regulation.

Key words: revolving doors, conflicts of interest, public integrity, government debt management, effectiveness of policies, enforcement, ethics regulation

JEL classification: K10, K23, K42, H63, H83, P16

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* The cut-off date for public officials' career information and the referenced legislations is 31st October 2021. An earlier version of this study was presented at the 3rd Edition of the International Workshops on Public Policy organised by the International Public Policy Association (IPPA).

An earlier version of this paper was published in the Institute of Law and Economics Working Paper Series (Silano 2022b).

This essay has been selected to be part of the forthcoming Special Issue 'Bad Policy: Malignity and the 'dark side' in public policy', *Policy & Society*, Oxford University Press.

1. Introduction

In recent years, the government and the industry have been establishing dense ties. A trend characterised by the rise of public-private partnerships, privatisations, the increasing participation of industry representatives in the policy cycle, and the diffusion of New Public Management (Mcluaghlin, Osborne, and Ferlie 2002; Diefenbach 2009; Transparency International 2010; OECD 2010, 16; MacDonald 2011). These developments have turned the professional flow between the public and private sector (i.e. the revolving door) into an institutional feature of several dimensions of public governance, thereby increasing the phenomenon's salience (Zinnbauer 2015; Demmke et al. 2020, 19). Indeed, although providing the incentives to perform, fostering government expertise and public-private synergies (Che 1995; Salant 1995; OECD 2010), the dynamic could undermine public integrity and impartiality through the rise of conflicts of interest, industry capture, corruption and state-corporate crime (Cohen 1986; Dal Bó 2006; OECD 2010; Rawlinson 2017; Pons-Hernández 2022).

Policymakers, non-governmental organisations and academics have been envisioning solutions to prevent and manage the phenomenon's adverse effects (OECD 2010; Transparency International 2011; Cerrillo-i-Martínez 2017; Demmke et al. 2020). Yet, as shown by recent prominent cases that have received extensive media coverage – e.g., David Cameron and Ádám Farkas –,[1] there are loopholes in the legislative framework that addresses the dynamic (Transparency International 2015; Demmke et al. 2020). Nevertheless, systematic empirical evidence of the effectiveness of revolving door laws is still minimal (OECD 2010; Cerrillo-i-Martínez 2017), and circumscribed to EU institutions (ALTER-EU 2011), German members of parliament (Reyher and Fuchs 2021) and Australian and British ministers (Brooks and Hughes 2016; Grattan Institute 2019).

[1] After his time in office as Prime Minister, David Cameron provided lobbying effort for the supply chain financing company Greensill Capital, whose collapse loomed with additional controversy over the operations of the UK ethics body Advisory Committee on Business Appointments (ACoBA) (Smith and Pickard 2021; Bowers 2021). The former executive director of the European Banking Authority, Ádám Farkas, switched to a leading financial sector's lobby group (AFME) as Chief Executive Officer (CEO) highlighting an implementation gap in EU revolving door policies (Demmke et al. 2020, 124).

Delivering a case study that is set in the executive branch of government debt management, this essay aims at contributing to fill such gap in the literature and envisions policy solutions stemming from the results.

Managing government debt, developed and developing countries have been entering partnerships with financial institutions, aka 'primary dealers', 'dealers' or 'specialists' (Arnone and Ugolini 2005). Dealers are national or international banks either appointed by national debt management units (DMUs) to regularly participate in government security auctions, and/or operating in the secondary market (World Bank 2010a; FICC Markets Standards Board 2020, 3–4). Given their pivotal role as government partners, in public debt management the revolving door denotes the horizontal flow of public officials to the dealers, and vice versa. Research shows that the phenomenon is endemic and it gains momentum among senior positions and financial sector expertise-intensive professions – e.g., traders and risk managers (Silano 2022a).[2] In particular, although the dynamic has the beneficial effect of fostering public-private synergies, as magnified by paradigmatic cases, it bears the potential risk of conflicts of interest, capture and collusion.[3]

With such quantitative and qualitative evidence in mind, this essay aims at assessing the effectiveness of revolving door laws by evaluating public officials' degree of compliance and enforcement quality. The paper's overarching purpose is to infer policy insights in order to improve the implementation of regulations which mitigate conflicts of interest. Drawing on a comparative legal study across a sample of eight OECD countries and a data set describing the trajectories of selected public debt managers (Silano 2022a),[4] this essay provides empirical evidence that although regulations curbing the revolving door phenomenon are in force, the regulatory framework hosts an implementation gap. Contributing to the causes are public servants' lack of compliance with ethics requirements, poor oversight and lack of a credible deterrent.

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[2] See Essay II.

[3] For an assessment of the potential effects of the revolving door in government debt management, see the previous Essay III.

[4] See (n 2).

Addressing the identified issues, policy proposals advocate regulatory interventions that enhance the identification and management of cases which potentially violate revolving door laws. Importantly, the solutions envision the establishment of independent ethics bodies accountable to third-party monitoring and empowered with clear enforcement mechanisms.

The remainder of this essay is the following. Section 2 describes the public-private nexus framing modern sovereign debt management and describes the potential effects of the revolving door therein. It follows Section 3 reviewing revolving door laws in OECD countries as well as the research on their effectiveness. Section 4 presents the research design, and Section 5 carries out the cross-country assessment. Drawing on the results, Section 6 designs policy proposals, and the conclusion summarises the findings whilst tracing avenues for future research.

2. The financialization of government debt management

Managing central government debt, sovereign states have been increasingly relying on national and global capital markets (Lemoine 2013; 2016; Fastenrath, Schwan, and Trampusch 2017; Preunkert 2020a). Endeavouring to meet financial markets' demands, the government has been undergoing a process of reforms: (*i*) establishing fiscal agents at arm's-length (DMUs), (*ii*) improving its expertise in financial economics, and (*iii*) entering partnerships with national and global financial institutions – i.e. primary dealerships (Borresen and Cosio-Pascal 2002; Arnone and Ugolini 2005; Datz 2008; Fastenrath, Schwan, and Trampusch 2017).

A primary dealership is a self-enforcing agreement, wherein the DMU appoints a national or international bank as partner in the issuance and allocation of sovereign debt (Arnone and Ugolini 2005). Framed in a relational contract, primary dealerships require the DMU to balance the dealers' obligations with benefits (Palzer 1988; World Bank 2010a). Although varying across jurisdictions, the specialists' main duties are to: (*i*) actively participate in auctions of government bonds, and (*ii*) efficiently allocate those in the secondary market (World Bank 2010a). The nature of the partnership makes the dealers government suppliers of a complex service that is subjected to exogenous parameters - e.g., level of interest rates, inflation, costs of regulation (Sadeh

and Porath 2020). Within such institutional framework, the parties must regularly negotiate over the terms of the agreement, above all, the debt management strategy, and the dealers' benefits – e.g., participation in syndications, government's privatisation programmes and derivative contracts (World Bank 2010a; Preunkert 2020b). Beyond entailing dealer-dealer collusion risks (World Bank 2010a), such principal-agent relationship bears inherent conflicts of interest. Indeed, financial intermediaries aim at maximising operative profits (World Bank 2010a, 27) whilst the DMU's remit is to minimise long-run government funding costs, constrained to a moderate degree of risk (International Monetary Fund 2014, 5).

Although the dealers provide the government with ongoing access to funding, the institutional framework carries the potential risk of public-private collusion. This is due to the parties' mutual dependence and the endemic presence of the revolving door phenomenon (Dobry 1986; Lemoine 2013; Silano 2022a).[5]

2.1 The revolving door phenomenon: Benefits and risks

In DMUs, the degree of interface with dealer banks varies across business units and public servants' hierarchy in the organisation. Senior officials, the general management and traders coordinate with the dealers in their day-to-day operations or recurring meetings – e.g., quarterly and individual (IPE 2014; UK DMO 2021a). Public debt managers in the trading room deal with the counterparties' desk in real time to guarantee the optimal allocation of sovereign debt in capital markets (UK DMO 2021a). Upon consultation with the dealers and other stakeholders, the general management is held accountable for enacting the debt management strategy – i.e. selecting the type of issuance and bonds' maturity. Additionally, CEOs and other senior staff enter rounds of negotiations over the schedule of syndicated auctions and drafting of derivative contracts (World Bank 2010a).

The afore-outlined institutional and operational context make the revolving door a phenomenon entailing both advantages and risks.[6] Overall, in light of the soaring degree of financialization of the debt management task (Datz 2008; Fastenrath,

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[5] See (n 2).

[6] See (n 3).

Schwan, and Trampusch 2017; Preunkert 2020a), the revolving door is an essential professional feature triggering a value-creating effect for the DMU. Entry revolvers would provide the fiscal agent's operative units (i.e. the trading room and risk management) with crucial expertise to better deal and communicate with the industry (Lemoine 2013, 16–17; UK DMO 2021a; AOFM 2021a; MEF 2021b). Apart from human capital, the revolving door could embed the DMU in valuable connections, a positive effect of special importance for countries in the early stage of development who need to expand their network of dealers (Arnone and Ugolini 2005; World Bank 2010a). Additionally, as inferred from an interview with the UK DMU Head of Dealing, Martin Duffell, public debt managers with an industry background would enhance the government's credibility commitment towards financial markets (UK DMO 2021a).

Nonetheless, the phenomenon could exacerbate conflicts of interest inherent in the principal-agent relationship framing the parties. Due to the presence of areas of governance entailing a black-box in the decision-making process and heightened public-private interaction, the revolving door could act as a transmission channel for conflicts of interest, capture and collusion.[7] The phenomenon could materialise the risks triggered by the dynamic of 'switching sides', where public officials move to a private entity that they dealt with whilst in office, acting as counterparties to their original position in the public sector (OECD 2010a, 28).

3. Revolving door laws: The state of the art

Although the legislator's effort to manage the revolving door dates back to the 19th century (GRECO 2007, 1), the regulatory activity towards the phenomenon gained utmost momentum in the early 2000s, particularly upon the outbreak of the 2008 Global Financial Crisis (OECD 2009; 2010; Demmke et al. 2020, 120; Demmke, Autioniemi, and Lenner 2021a). International governmental and non-governmental bodies – e.g., the OECD, the Group of States against Corruption (GRECO) and Transparency International – issued policy packages guiding sovereigns in the design and implementation of rules which restrict post-public appointments and

[7] This risk is magnified by the former Director of the Italian DMU, Domenico Siniscalco, a case analysed in Section 5. For an overview of the risks carried by the case, see Essay III, Section 3, Subsection 3.1.3.

incompatibilities (GRECO 2007; OECD 2010; Transparency International 2011; World Bank, OECD, and UNODC 2018). Since 1999, GRECO has been releasing guidelines fostering public integrity followed by on-site visits that monitor the degree of compliance of recipient jurisdictions. Overall, most sovereigns have been making remarkable progress in implementing measures that identify and manage the risks triggered by the revolving door (OECD 2010; Transparency International 2015).

Curbing its potential adverse effects, policymakers and academics suggest not to outlaw the phenomenon, rather to circumscribe it (Transparency International 2010; OECD 2010, 22; Zinnbauer 2015; Cavendish 2021). Indeed, modern public administration has been championing freedom of employment along with increasing openness towards industry professionals (Demmke et al. 2020, 19). Hence, managing revolving doors, the main takeaway is to strike a balance between guaranteeing public integrity and enhancing public administration's professionalisation (OECD 2010a, 22). On the one hand, too strict regulations could have the side-effect of not attracting bright individuals (Law and Long 2012), and on the other, absence of a deterrent could prompt the rise of corruption and rent-seeking behaviour (GRECO 2007). Therefore, policymakers shall abandon a one-size-fit-all approach and rather envision solutions tailored to specific positions, operations and institutional contexts with heightened risk of conflicts of interest (OECD 2010a, 34; Transparency International 2011, 28; Zinnbauer 2015, 19).[8]

3.1 Revolving door policies in OECD countries

OECD jurisdictions' regulatory approach towards the revolving door phenomenon is highly fragmented and adopts different mechanisms circumscribing it (Demmke et al. 2020, 74). International organisations' guidelines recommend embedding secondary legislations in primary sources (OECD 2010), which implies the adoption of both hard and soft law solutions – i.e. public administrative laws and codes of conduct respectively. The former to deter individuals from engaging in behaviour that undermines public integrity, and the latter to foster a working environment wherein compliance with ethical values is perceived to be relevant (Dávid-Barrett 2015). Only

[8] For policy proposals regulating the revolving door, see Essay III.

a restricted share of countries – i.e. France and the US – punish non-compliance with criminal sanctions (OECD 2010a, 43).

Across the three dimensions of the revolving door – i.e. pre-public and post-public employment, and side-activities –, the post-public employment side is by far the most regulated – see Table IV-A1, Appendix A (OECD 2015; Transparency International 2015).[9] Indeed, only three OECD countries introduced pre-public employment restrictions for prospective public servants (OECD 2015).[10] Overall, the regulation scope is public officials of any seniority; however, in the Netherlands and Sweden only senior public servants are subject to restrictions – see Table IV-A1, Appendix A (OECD 2015).

Across OECD jurisdictions, the most diffused mechanism addressing post-public employment issues is the cooling-off period that bans officials from moving to the private sector for a generally fixed amount of time.[11] The rationale of the measure assumes that matters dealt by public servants with their prospective employer whilst in office are going to lose salience over time (OECD 2010a, 67–71).

Fostering compliance, an increasing trend in OECD jurisdictions is the establishment of *ad hoc* ethics bodies overseeing public officials' career transitions to assess the potential presence of conflicts of interest – see Table IV-A2, Appendix A. Overall, ethics bodies function according to the model of self-regulation: it is not compulsory for public servants to report their intention to move to the industry and lack of compliance does not trigger sanctions. The UK epitomises such regulatory approach, where the ethics agency Advisory Committee on Business Appointments (ACoBA) is an advisory body. Hence, public servants planning to move to the private sector may seek the agency's opinion, which would not constitute a constraint

[9] Jurisdictions without post-public employment restrictions targeting public officials in the executive branch are Belgium, Hungary, Iceland and New Zealand.

[10] Although the OECD provides a longer list of countries with pre-public employment restrictions, preliminary research shows that only the Slovak Republic, France and the US established clear limitations towards prospective public officials with a background in the industry (OECD 2015) – see Appendix B. Submitting a freedom of information request in Germany and Greece, authorities in both jurisdictions refused to provide information.

[11] Outliers are Canada, Finland, Germany, Sweden and the US who assign the length of the cooling-off period for ministers, cabinet members or senior public officials on a case-by-case basis (GRECO 2007; 2018a; 2019b; OECD 2010, 69).

(GRECO 2018c, 28). The exception is France, where the High Authority for Transparency in Public Life (HATVP) is empowered to restrict public officials' career moves. Public servants entering the revolving door without informing the ethics agencies are subject to the Criminal Code (GRECO 2020).

3.2 Are revolving door policies effective?

Although policymakers have a variety of measures to deal with the revolving door phenomenon, institutions and non-profit organisations claim the presence of lack of compliance, weak oversight and poor enforcement quality (Transparency International 2015; UK Parliament 2017b; GRECO 2019b, 18; ANAC 2020; Committee on Standards in Public Life 2021).

Yet scarcity of systematic comparative legal analyses embedded in empirical evidence and case studies fail to corroborate such assertion. With regard to the European Commission, the non-profit organisation ALTER-EU shows that although post-public employment rules are in place, the movement of commissioners to lobby firms is free to flow (ALTER-EU 2011). In the UK, investigative journalists show that ministers move to industrial counterparties in order to provide lobbying effort without any intervention of the ethics body ACoBA (Public Administration Select Committee 2012; Brooks and Hughes 2016). In Australia, the Grattan Institute, a think tank, lists cases of ministers switching to firms that they dealt with whilst in office, despite the presence of restrictions (Grattan Institute 2019). In Germany, the legislation on mandatory reporting does not improve members of the parliament's disclosure of side-activities (Reyher and Fuchs 2021). In a recent investigation the Washington Post revealed that retired military officials, who ended up consulting foreign governments that they dealt with whilst in office, were not subject to either scrutiny or enforcement (Washington Post 2022).

4. Research design

This study estimates the effectiveness of revolving door laws across a sample of eight OECD jurisdictions[12] by assessing: (*i*) oversight and enforcement quality of ethics committees, (*ii*) and public officials' compliance with restrictions. Focusing on post-public employment and side-activities, the object of investigation is to identify and examine cases of public debt managers who switch to dealer banks or hold posts at these whilst in office at the DMU.

Data availability issues and dearth of legislations that limit the revolving door phenomenon both contribute to the reason that the pre-public employment side is excluded – Table IV-A1, Appendix A (OECD 2015).[13]

The selection of the sample jurisdictions complies with three criteria. First, in order to evaluate the effectiveness of a broad palette of regulatory approaches, legislative frameworks have been chosen across degrees of sophistication: from jurisdictions with less stringent rules (Austria, Germany, Greece, Italy and Spain),[14] to those embedded in *ad hoc* ethics bodies (Ireland and the UK) and the most draconian of all, France. Second, as the norms object of analysis are not retroactive, countries must have had a revolving door policy in force as public officials moved to the industry. A side-effect of such rationale led to the exclusion of revolvers because career transitions occurred as restrictions were not in force yet.[15] Third, since public debt managers are part of the executive branch, the jurisdictions' scope is restricted to that of public administration.[16] Indeed, a share of OECD countries either do not have a regulatory framework in force

[12] Austria, France, Germany, Greece, Ireland, Italy, Spain and the UK.

[13] See (n 10).

[14] The cases of violation analysed in Greece, Italy and Spain took place prior to the introduction of reforms that established ethics agencies.

[15] For example, in Australia, post-public employment restrictions were introduced in December 2007 (Grattan Institute 2019, 7), and the data set includes a career transition ascribable to the revolving door which occurred in May 2004 (Silano 2022a).

[16] The outlier is Italy, whose case studies refer to legislations regulating conflicts of interest for high-ranking members of the government – i.e. Law n. 215 of 2004. Indeed, the two cases of violations refer to former DMU Directors who were appointed Ministries of Finance prior to their appointment in the industry.

– i.e. Belgium, Hungary and New Zealand – or its scope is restricted to ministers, cabinet members or elected politicians.[17]

Information on career transitions has been retrieved from a data set tracing the professional path of 655 public debt managers across 27 OECD countries within the timeframe 1984-2021 (Silano 2022a).[18] Ensuring that career moves are ascribable to the revolving door, the database also includes evidence that, at the time of the professional transition, the financial institution of destination was or had been a dealer in government securities.

Overall, breaches of post-public appointment restrictions have been identified in Austria, France, Greece, Ireland, Italy, Spain and the UK, and of incompatibility rules in Germany and Austria. With the exception of ministers and personalities mentioned in the media, public officials' identities were coded to guarantee anonymity.[19]

Embedding the results in robustness, the study cross-checks the actual presence of misconduct interfacing with ethics officials or querying open data. The latter is the case of France and Spain, where ethics bodies provide a database of public servants who submitted a request for the approval of their career move to the private sector.[20] In case public servants do not show up querying the database, the analysis infers that they did not request the approval, thereby not complying with ethics requirements. For jurisdictions without a comprehensive list of public servants, the strategy was to approach ethics officers within DMUs or national ethics committees by submitting freedom of information requests or filing a complaint for alleged violations of ethics

[17] See the case of the Netherlands which enacted a legislation imposing a two-years cooling-off period for senior public officials who serve at the Defence Ministry (Transparency International 2011, 9).
[18] See (n 2).
[19] Officials' identities take the ISO country code followed by an ascending numerical ID. For instance, Austrian public officials have been coded as follows, AT01, AT02 etc.
[20] In France, see (HATVP 2023), and in Spain (Sánchez 2016). Although, in Spain, the ethics body was established in 2015 (Cerrillo-i-Martínez 2017; GRECO 2019a, 25–26), open data gathering public officials' requests for approval are available from 2006 (Sánchez 2016).

requirements.[21] In one case, the violation was inferred from a report issued by the governmental authority which identified the breach without the power to enforce it.[22]

5. Cross-country assessment

5.1 Post-public appointments

5.1.1 Austria

The regulation restricting post-public employment is part of the Civil Servants Act of 1979, wherein the legislator imposes a cooling-off period of twelve months for public servants whose office entailed dealings with their prospective employer.[23] The institutional framework lacks an ethics committee and functions according to a self-regulatory approach: public officials must abide by the highest ethical standards, and colleagues, civil society and the media shall oversee and report any wrongdoing (Rosete, Coroado, and de Sousa 2022).

Table IV-1 shows that former high-ranking positions at the Austrian DMU switched to the dealers in government securities allegedly breaching the legislation in force.[24] Former CEO, AT01, after serving circa three years at the Austrian DMU, moved to the management board of the dealer GiroCredit (Erste Bank), allegedly without complying with restrictions in force. The same applies to former CEOs, AT02 and AT04, who moved to the dealers Landes-Hypothekenbank and Hypo-Alpe-Adria respectively right after their office. AT03 served as a member of the DMU management board from December 2007 to June 2015, and then switched to Immigon Portfolio Abbau AG in August 2015, the main financial institution within the dealer Volksbank AG.

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[21] This is the case of Austria, Germany, Greece, Italy, Ireland and the UK. Only Italy replied. Austria, Germany and the UK refused to disclose information due to data privacy laws. Anonymous complaints were filed to ethics bodies in Greece and Ireland. In Greece, the DMU is beyond the jurisdiction of the ethics body and in Ireland, the ethics agency did not reply.

[22] See the case of the Italian former Minister of Finance, Domenico Siniscalco, whose lack of compliance with post-public employment rules was identified by the national antitrust authority - Autorità Garante della Concorrenza e del Mercato (AGCM) (AGCM 2006).

[23] Beamten-Dienstrechtsgesetz 1979, Auflösung des Dienstverhältnisses, §20 (3a) 2.

[24] Neither the Austrian DMU nor the ministry of finance replied to the freedom of information request.

Table IV-1. Austrian former DMU's chief executives allegedly breaching post-public employment restrictions

Former Official	Role (DMU)	Tenure (DMU)	Dealer	Role (Dealer)	Tenure (Dealer)
AT01	CEO	01.1993 - 04.1996	GiroCredit	Management board	05.1996 - Unknown
AT02	CEO	10.2006 - 09.2011	Landes-Hypothekenbank	Management board	10.2012 - Present
AT03	Supervisory board	12.2007 - 06.2015	Volksbank AG	Supervisory board	08.2015 - Present
AT04	CEO	03.1998 - 09.2006	Hypo-Alpe-Adria	Management board	10.2006 - 05.2009

Source: (Silano 2022a)

5.1.2 France

Across OECD countries, France is among the most draconian at curbing the revolving door. As mentioned in Section 3, since 1994, France punishes non-compliance with post-public appointment rules via the criminal code (OECD 2010).[25] In 2013 the parliament approved a decree delegating the oversight and enforcement activity to the independent ethics body HATVP (GRECO 2020). Operating according to a model of self-regulation, public servants planning to move to the private sector are not constrained to inform the watchdog. In case of notification, the HATVP would then assess potential conflicts of interest and apply a restriction. Until April 2007 the cooling-off period was five years (OECD 2010, 87), which was shortened to three in 2020 (GRECO 2020, 26-27).

Table IV-2. French former DMU's chief executives breaching post-public employment restrictions

Former Official	Role (DMU)	Tenure (DMU)	Dealer	Role (Dealer)	Tenure (Dealer)
FR01	Deputy manager	1991-1996	Deutsche Bank	Associate director	1997 - Present
FR02	General director	01.2016	Crédit Agricole	General director	02.2016 – 03.2020

Source: (Silano 2022a)

[25] Art. 432-13, Criminal Code.

Despite the sophisticated and stringent regulatory framework, Table IV-2 presents two cases of potential breaches of post-public appointment rules. FR01 would have breached the Criminal Code by not complying with the five-years cooling-off period policy in force at the time of the transition.[26] The public official constitutes a particular case since his career path is circular with respect to the dealers in government securities. From 1989 until 1991, he worked at Caisse de Dépôts contributing to the birth of the dealer Natixis (L'Agefi 2017), and then moved to the French DMU as deputy manager (1991-1996). After his office, he developed a brilliant career at various dealers – Deutsche Bank, as associate director (1997-1998); Merril Lynch, as managing director (1998-2009); Deutsche Bank, as chief country officer (2009-2017); Credit Suisse, as managing director (2017 - Present).

FR02 constitutes a case of breach of the cooling-off period regulation, despite the presence of the oversight authority (HATVP). She worked as general director at the French DMU from September 2012 until January 2016 and then moved to the dealer Crédit Agricole in February 2016, covering the same post. Querying the record of cases scrutinised by the ethics watchdog, FR02's career transition was not assessed by the HATVP, evidence that she did not seek the body's advice.

5.1.3 Greece

Contrary to France, Greece restricts post-public appointments with a code of conduct – the Civil Servants' Code – which imposes a cooling-off period of at least two years to public servants planning to join a private firm that they dealt with whilst in office (GRECO 2005, 13).[27] In 2007 the Code of Status of Public Civil Servants delegated executive bodies themselves to oversee public servants' career transitions.[28] In 2019 the jurisdiction established an ethics body overseeing revolving doors – the National Transparency Authority (NTA) (GRECO 2022, 31).

[26] Since this case occurred prior to the establishment of the ethics body HATVP, a freedom of information request was submitted to the French DMU which did not reply.

[27] Art. 17 para. 13, Law No. 1418/1984.

[28] Chapter B – Limitations of Employees, Art. 31, Law No. 3528/2007.

Table IV-3. Greek former DMU's chief executives allegedly breaching post-public appointment restrictions

Former Official	Role (DMU)	Tenure (DMU)	Dealer	Role (Dealer)	Tenure (dealer)
Stelios Papadopoulos	CEO	08.2012 – 01.2018	JP Morgan	Managing Director	01.2018 -Present
Petros Christodoulou	CEO	02.2012 – 06.2012	National Bank of Greece	General Manager	06.2012 - Present
Christoforos Sardelis	CEO	1999 - 10.2004	Handelsbanken/Bank of America/Banca IMI	Executive positions	Unknown - 2010

Source: (Silano 2022a)

Table IV-3 provides evidence of potential breaches of post-public employment restrictions prior to the introduction of the NTA.[29]

After an established high-ranking career at the dealers, Stelios Papadopoulos was appointed director general at the Greek DMU. Subsequent to his time in office, he moved to the dealer JP Morgan as a managing director accountable for the Greek fixed income market (Slater 2018).

After a successful career path at Credit Suisse, Goldman Sachs,[30] JP Morgan and the National Bank of Greece, Petros Christodoulou was appointed general manager of the Greek DMU on 25th February 2010 (Foley 2011). When he left office in June 2012 he was appointed general manager of international activities at one of his former employers (the National Bank of Greece), without complying with any cooling-off period (Bloomberg - Businessweek 2013).

Christoforos Sardelis was general director of the Greek DMU between 1999 and 2004. Following his public appointment, he moved to Banca IMI where he worked as director general, leading the dealers' fixed income strategy in the Greek security market (Apcom/TM News - General News Service 2009).

[29] The results are somewhat limited in terms of reliability as the national DMU did not reply to the freedom of information request. Filing an anonymous complaint to the national ethics body, the NTA, the agency declared that it is not accountable for investigating alleged violations of revolving door laws occurring in the Greek DMU.

[30] For an overview of how Christodoulou's background at Goldman Sachs helped the Greek DMU entering opaque derivative deals, see Essay III, Section 3, Subsection 3.1.3.

5.1.4 Ireland

The ethics body Standards in Public Office Commission (SiPO) was established in 2001 to oversee compliance with, among others, post-public employment restrictions (Dáil Éireann 2001). In 2004 the Commission released a code of conduct outlining public servants' standards of behaviour (SiPO 2004). Art. 20 of the code requires public servants to inform SiPO about their intent to switch to the private sector, in case the public servant: (*i*) has had official dealings with the prospect employer, and/or (*ii*) could provide the latter with unfair competitive advantage (SiPO 2004, 21). Upon submission, SiPO would then scrutinise the case and evaluate whether it bears potential conflicts of interest. Under such circumstances, the body might suggest the public servant to comply with a non-compulsory one-year cooling-off period (SiPO 2004; OECD 2010).

Table IV-4. Former Irish senior public debt managers allegedly breaching post-public appointment restrictions

Former Official	Role (DMU)	Tenure (DMU)	Dealer	Role (Dealer)	Tenure (dealer)
IE01	Director	08.2018 – 06.2019	AIB	Managing Director	06.2019 - Present
IE02	CEO	12.1990 – 12.2009	AIB	Deputy Chairman	01.2010 - Present
John Corrigan	CEO	06.1991 – 01.2015	Davy	Chairman	04.2015 - Present
IE04	Chief Risk Officer	01.2015 – 04.2017	AIB	Group Chief Risk Officer	04.2017 - Present
IE05	Board Member	09.2010 – 10.2016	AIB	Deputy Chair	10.2016 - Present

Source: (Silano 2022)

As reported in Table IV-4,[31] former directors and chief executives serving at the Irish DMU moved to dealers of government bonds, allegedly without complying with the code of conduct.

IE01, after serving as director at the Irish DMU for circa one year, was hired by the dealer AIB as managing director, a company for which she worked before her public appointment from 1996 to January 2010.

The case of John Corrigan also deserves attention: he left his position as chief executive at the Irish DMU in January 2015, to be appointed as chairman at the primary dealer Davy in April 2015. In 2021 the financial institution was under regulatory

[31] Although a complaint was filed to SiPO, the ethics body did not reply.

scrutiny for a scandal involving regulatory breaches which ultimately led to the removal of the status of dealer (The Irish Times 2021).

5.1.5 Italy

In 2012 Italy introduced post-public appointment restrictions consisting of a three-years cooling-off period for public officials employed in the executive branch (World Bank, OECD, and UNODC 2018, 29).[32] For ministers and other high-ranking members of the government, the Law n. 215 of 2004 enacted a twelve-months cooling-off period in case the career move is deemed to host potential conflicts of interest (AGCM 2006). Ancillary to such legislations, in 2015 the DMU enacted a code of conduct which did not introduce any provisions on revolving doors (MEF 2015).

Table IV-5. Former Italian Minister of Finance breaching post-public employment restrictions

Former Minister	Tenure (DMU)	Dealer	Role (Dealer)	Tenure (dealer)
Domenico Siniscalco	07.2001 – 09.2005	Morgan Stanley	Managing Director and Vice Chairman	04.2006 - Present
Vittorio Grilli	07.2012 – 04.2013	JP Morgan	President	05.2014 - Present

Source: (Silano 2022a)

Table IV-5 reports the cases of two former DMU directors who were appointed Ministers of Finance: Domenico Siniscalco and Vittorio Grilli. The two did not comply with the Law n. 215 of 2004 that restrains ministers from moving to the industry. The former switched to the dealer Morgan Stanley covering market-making duties without abiding by the twelve-months cooling-off period (AGCM 2006). By the same token, the latter switched to the dealer JP Morgan in May 2014 after resigning his post in April 2013. Upon submitting a freedom of information request to ANAC concerning the case of Grilli, the ethics body stated that the Law n. 215 of 2004 is largely ineffective in its application (ANAC 2023).

Such cases deserve particular attention since Vittorio Grilli, Domenico Siniscalco and two DMU directors were on trial for loss of revenue (Reuters 2017). The allegation against them stated that the derivative deals signed with Morgan Stanley were drafted

[32] Art. 53, 16-ter, Law n. 165 of 2001.

to overly favour the latter (Corte dei Conti 2019). Although the trial ended with the discharge of all former public servants for lack of jurisdiction (la Repubblica 2022), the case remains highly controversial. This is due to the fact that Siniscalco's appointment at Morgan Stanley could be perceived as an award for favouring the dealer while in office.[33]

The cases of Grilli and Siniscalco show that the regulatory framework lacks an adequate ethical culture and effective mechanisms underpinning the application of the rules. Significantly, although the Italian Competition Authority (AGCM) reported Siniscalco's breach of Law n. 215 of 2004 (AGCM 2006), it did not have any effect on the career of the former minister as the agency was not endowed with enforcement mechanisms. The establishment of ANAC in 2014 embedded the institutional framework in an oversight body which highlighted the presence of shortcomings in the legislation (ANAC 2020; 2022). Additionally, ANAC argues that lack of clarity in the primary legislation undermines the application of restrictions as the agency is not empowered with clear monitoring and enforcement tools (ANAC 2022).

5.1.6 Spain

The first legislation that introduced post-public employment restrictions which targeted high-ranking public officials was enacted in 2006 (OECD 2010a, 79; Cerrillo-i-Martínez 2017, 365).[34] As a mechanism to manage conflicts of interest, the regulation forbids former senior public servants to work for private companies that they dealt with whilst in office for the next two years (OECD 2006, 8). A reform enacted in 2015 established the Office of Conflicts of Interest empowered with monitoring compliance and advisory power (Cerrillo-i-Martínez 2017; GRECO 2019a, 25–26). Public officials must seek approval from the ethics body prior to moving to the industry. Lack of compliance implies a 'loss of severance payments, an obligation to return the sums received, a ban from occupying public posts from five to 10 years, and a public

[33] Domenico Siniscalco resigned the post as minister of finance in September 2005 and joined Morgan Stanley in April 2006 (Morgan Stanley 2016). For an analysis of the case, see Essay III, Section 3, Subsection 3.1.3.
[34] Law No. 5/2006.

statement of non-compliance which is issued in the Official Gazette' (GRECO 2018b, 26).

Table IV-6. Former high-ranking public officials breaching post-public employment restrictions

Former Official	Role (DMU)	Tenure (DMU)	Dealer	Role (Dealer)	Tenure (dealer)
ES01	Sub-director General	09.2010 - 10.2013	BBVA	Director	01.2014 - 02.2017
ES02	Deputy Head	06.2003 - 12.2009	BBVA	Director	07.2010 - Present

Source: (Silano 2022a)

Table IV-6 provides empirical evidence of breaches perpetrated by senior public officials, preceding the introduction of the ethics body. ES01 was appointed sub-director of the management of government debt in September 2010, then he moved to the dealer BBVA covering the role of director.

ES02 was deputy head of financing and risk management at the Spanish DMU from June 2003 until December 2009. In July 2010 he moved to BBVA as director.

The two cases were not enforced by authorities, embedding empirical in anecdotal evidence on the norm's lack of application (Cerrillo-i-Martínez 2017, 363). When querying the database that gathers public officials requests for approval,[35] the two public debt managers did not show up, which provides evidence of the lack of compliance (Sánchez 2016).

5.1.7 UK

In the UK the Business Appointment Rules, part of the Civil Service Code, regulate Crown servants' post-public employment restrictions and delegate each government agency to set out their own rules (UK Parliament 2010). In February 2013, the UK DMU approved its internal code of conduct that restricts civil servants career moves in the private sector, for the next two years following public appointment (United Kingdom Debt Management Office 2022, 5). Public debt managers must seek government approval in case their office implied any official dealings with their prospective

[35] See (n 20).

employer during public employment.[36] Under these circumstances, public servants shall submit a request for approval to ACoBA, an independent ethics body established in 1975 and not endowed with enforcement power (ACoBA 2018, 1).

Table IV-7. Former public debt managers allegedly breaching post-public employment restrictions

Former Official	Role (DMU)	Tenure (DMU)	Dealer	Role (Dealer)	Tenure (Dealer)
UK01	Consultant	08.2016 – 05.2017	UBS	Fixed income manager	06.2017 – 09.2017
UK02	Business analyst	06.2017 – 10.2020	HSBC	Business analyst	10.2020 - Present
UK03	Senior business analyst	03.2012 – 12.2012	Societe Generale	Senior business analyst	09.2013 – 06.2016
UK04	Cash trader	04.2016 – 04.2018	Lloyds Bank	Repo trader	07.2018 - Present
UK05	Business analyst	01.2013 – 05.2018	Royal Bank of Canada	Business analyst	05.2018 – Present
UK06	Credit and market risk analyst	12.2013 – 09.2015	JP Morgan	Senior associate	09.2015 – 08.2020
UK07	Gilt trading and issuance	03.2000 – 03.2010	Toronto Dominion	Gilt trading	05.2010 – 11.2015

Source: (Silano 2022a)

Table IV-7 lists former public debt managers moving to dealers of government securities, allegedly without complying with either the DMU's internal guidelines or the rules set by ACoBA.[37] Although the career transitions do not involve the general management, they deserve attention as they are potential cases of 'switching sides' (OECD 2010). Indeed, the public debt trader UK07 moved to a dealer bank covering an equivalent position, with the same applying to UK02, UK03, UK04 and UK05.

[36] United Kingdom Debt Management Office – Standards of Propriety v. 1.3, Annex A - Business Appointment Rules.

[37] The results perform limited reliability. Complying with the UK GDPR and Data Protection Act 2018, upon submission of a freedom of information request, the UK DMU did not disclose if the public officials object of analysis did abide by ethics requirements.

5.2 Side-activities

Potential cases of incompatibility have been detected in Austria and Germany – see Table IV-8.[38] These are cases of senior public debt managers, who have been covering high-ranking positions at the dealers whilst in office.

The German case of Jutta Dönges allegedly constitutes a breach of the regime of compatibility as per the Federal Civil Servants Act.[39] The public servant's post as member of the supervisory board at the dealer Commerzbank AG could constitute a source of actual and potential conflicts of interest with respect to the position as CEO at the German DMU. As described in Section 2, Dönges' office implies the negotiation with the dealers over their benefits, the parameters of issued debt and the overall debt management strategy. Significantly, Dönges could take operative decisions favouring Commerzbank AG's interests at the expense of the DMU's position, moved by material interests in the former - e.g., stocks.

The same narrative applies to AT05, who is a member of the supervisory board at the Austrian DMU and at the dealer Raiffeisen Bank simultaneously, thereby allegedly breaching the Civil Servants Act of 1979.[40]

Table IV-8. Public debt managers allegedly breaching incompatibilities restrictions

Civil Servant	Role (DMU)	Tenure (DMU)	Dealer	Role (Dealer)	Tenure (Dealer)
AT05	Member of the Supervisory Board	2013 – Present	Raiffeisen Bank AG	Supervisory board	2017 - Present
AT06	Member of the Board	2013 - 2019	Volksbank AG	Supervisory Board	2013 - 2015
Jutta Dönges	CEO	01.2018 – Present	Commerzbank AG	Supervisory board	05.2020 - Present

Source: (Silano 2022a)

[38] The results display limited reliability as, in Austria, neither the DMU or the Ministry of Finance replied and, in Germany, upon being redirected by the national DMU to the Ministry of Finance, the latter refused to respond to the freedom of information request.

[39] Bundesbeamtengesetz – BBG, § 99 Genehmigungspflichtige Nebentätigkeiten, Art. 2.

[40] Beamten-Dienstrechtsgesetz 1979, §56 Nebenbeschäftigung, (2).

5.3 Cross-country effectiveness

This subsection investigates the cross-country effectiveness of sample regulatory frameworks by drawing on the data set developed in Silano (2022a).[41] Operationalising the degree of efficiency of revolving door restrictions, the analysis develops a statistical indicator that measures the incidence of violations as a share of total transitions out of the public service across jurisdictions – i.e. the 'violations-to-career moves ratio' I_j:

$$I_j = \frac{V_j}{M_j}$$

$$\mathrm{j} = 1, 2, 3, \ldots, 7$$

Where j is an index denoting the seven countries of the sample,[42] V_j the amount of violations occurring in jurisdiction j, and M_j the number of transitions out from the public service. Interpreting the result, it is necessary to account for two caveats. First, due to data availability,[43] the sample size of career moves varies across jurisdiction, a feature undermining data reliability. For instance, the results in France are more reliable than in Greece, as the former draws on a sample of thirty-three *exit* moves and the latter on five (see the M_j column in Table IV-9). The second issue revolves around the validity of data on violations. As pointed out in the previous section, evidence of actual breaches is available only in France, Italy and Spain. Hence, as the results exhibit limited external validity, the policy implications shall be evaluated accordingly.

The results in Table IV-9 show that the regulatory frameworks with the highest incidence of violations to career ratio are in Greece (60%), Austria (40%) and Spain (40%). Conversely, the most virtuous jurisdiction is France: out of thirty-three exit moves, only two constitute violations to revolving door restrictions. Exhibiting median values, Italy, the UK and Ireland have a ratio of 29%, 27% and 20% respectively.

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[41] See (n 2).

[42] Austria, France, Greece, Ireland, Italy, Spain and the UK. Germany was excluded as the identified potential violations are ascribable to side-activities, see the previous Subsection 5.2.

[43] See Essay II, Section 3.

Table IV-9. Violations-to-career moves ratio across jurisdictions

Jurisdiction j	Number of violations V_j	*Exit* moves M_j	Violations-to-career moves ratio I_j
Austria	4	10	40%
France	2	33	6%
Greece	3	5	60%
Ireland	5	25	20%
Italy	2	7	29%
Spain	2	5	40%
UK	7	26	27%

Source: Author's own calculation from Silano (2022a)

Although affected by limited external validity, the policy implications of the results would suggest that a sophisticated regulatory framework as per the French model would constitute an effective deterrent to compliance. As previously described, this regime implies the introduction of independent ethics bodies framed in revolving door restrictions punishable under criminal law (GRECO 2020). Concerning the least performing jurisdictions, the results would suggest that the absence of an independent ethics body (Austria and Spain) or of clear norms regulating the revolving door (Greece) undermine the implementation of legislations. As arose from a freedom of information request, in Greece the ethics body is not empowered with overseeing revolving door cases occurring in the national DMU. Spain epitomises the flaws of establishing a regulatory framework as per the model of self-regulation, endowing public servants with discretion over submitting a request for approving their move to the industry. In Austria, lack of an *ad hoc* ethics agency might be the reason for the lack of accuracy when assessing revolving door cases.

Due to the similarity of their regulatory framework, the results in Ireland and the UK would confirm the limits of establishing a regime according to a self-regulatory model as in Spain. Echoing Greece, Italy highlights the limits of an unclear regulatory framework that exhibits significant gaps in the implementation of the norms. This is a

deficiency confirmed by the response to the freedom of information request submitted to the Italian ethics body ANAC (ANAC 2023).

6. Regulatory proposals

The previous section's findings reveal the presence of an implementation gap in the regulatory framework. Indeed, although career moves constitute actual and potential violations of revolving door policies, public debt managers allegedly failed to comply with ethics requirements. Significantly, in one case wherein the national ethics authority issued a rule for the violation, it did not have enforcement power to apply the restriction.[44]

The results suggest that the sample jurisdictions' framework lacks, on the one hand, of effective monitoring and credible enforcement mechanisms, and on the other, of adequate ethical culture and clear legislations. Stemming from the findings, addressing shortcomings, regulatory proposals envision the establishment of independent bodies endowed with monitoring and enforcement power. Supporting oversight activity, interventions propose more transparency in public officials' career moves and ethics bodies' operations and governance.

6.1 Overhauling ethics bodies

Case studies in France, Ireland and the UK show that ethics agencies do not prevent public officials from breaching revolving door laws. Such bodies would have failed to scrutinise cases which potentially bore conflicts of interest. This would be evidence that the regulatory framework lacks a credible deterrent, as ethics agencies would perform perfunctory oversight and are not empowered with enforcement mechanisms.

Identifying the causes of such flaws, it should be highlighted that ethics bodies are independent only *de facto*. In case of ACoBA, members of the board are appointed by the elites they are supposed to regulate (Demmke et al. 2020, 132). For this reason, the agency's governance has been blamed by policymakers and practitioners for leading

[44] See the case of Domenico Siniscalco, Section 5, Subsection 5.1.5.

to biases which favour the systematic approval of business appointments (UK Parliament 2017b; Demmke et al. 2020, 132).

Overcoming the risk of capture, following policymakers, the suggestion is to introduce third-party independent checks auditing the committees' operations and governance (Transparency International 2011; UK Parliament 2017b). The idea is to empower GRECO with sound oversight and enforcement power. The EU ethics organ, operating within the Council of Europe, shall monitor national ethics bodies' implementation of national rules and, in case of non-compliance, impose a pecuniary sanction. To this end, GRECO might introduce an ethics officer overseeing the national revolving door committee on a regular basis.

Another shortcoming of the current framework is that ethics agencies adopt a self-regulatory approach which deprives them of real oversight and enforcement power (Demmke et al. 2020, 110). In France and Ireland, the HATVP and SiPO delegate the monitoring task to executive departments themselves (SiPO 2004, 22; HATVP 2022), and the British ACoBA holds merely an advisory role (Public Administration Select Committee 2012). Concerning enforcement, ethics agencies across OECD jurisdictions cannot constrain public servants to report their intention to move to the industry. Furthermore, even in case of negative opinion, apart from France, the bodies cannot restrict the civil servant's move to the industry (UK Parliament 2017b; SiPO 2004).

Addressing these limits, the proposal is to: (*i*) introduce primary legislation ascribable to criminal law according to the French model, and (*ii*) transform ethics agencies into statutory bodies as per the Canadian system (High Pay Centre 2015, 37–38). The reforms would endow the ethics commissioner with effective monitoring and enforcement mechanisms through primary legislation. As an officer of the national parliament, the commissioner would hold the power to impose penalties in case of non-compliance with rules and recommendations (Strickland and Maer 2019, 12).

6.2 Enhancing transparency

The case of France (FR02) shows that criminal penalties do not constitute a sufficient deterrent to seek ethics body's opinion due to perfunctory oversight. Supporting monitoring activity, government agencies shall disclose data on public officials' career background and moves. Such information shall be then transferred to the ethics

commissioner who will check whether the public servant submitted a request for approval. Additionally, executive departments shall keep records that track officials' liaisons with government's business partners, facilitating the commissioner in the detection of potential and actual conflicts of interest. Indeed, deficiencies in ethics bodies might be unintentional – i.e. lack of resources and coordination, time-consuming and complex investigations (Demmke, Autioniemi, and Lenner 2021a, 7).

Backing third-party independent committees' oversight, revolving door committees shall provide systematic data on the cases examined, a strategy suggested both by policymakers and non-profit organisations (UK Parliament 2017b; Transparency International 2011). Additionally, ethics committees shall disclose more details on the organisation decision-making process, in particular on how judgements over revolving door cases are met. Such disclosures would have the effect of enhancing public accountability and the application of the rules.

6.3 Enhancing ethical culture

Breaches of revolving door policies are evidence of poor ethical culture. Executive agencies shall release an internal code of conduct and foster public servants' awareness of the rules by training (OECD 1997).

The cases of potential violations identified in the UK DMU – i.e. UK01, UK02 etc. – epitomise that the presence of an internal code of conduct that sets post-public appointment rules would not be sufficient without primary legislation introducing penalties, and effective monitoring and enforcement mechanisms (OECD 2010).

Jurisdictions lacking an ethics body shall ponder to introduce one, as potential breaches in Austria and Germany highlight the limits of a framework based on self-regulation (Rosete, Coroado, and de Sousa 2022). In such contexts, oversight and reporting of wrongdoing are delegated to government agencies themselves, the civil society and the media. Hence policymakers shall foster a strong ethical culture coupled with the presence of an ethics watchdog. In fact, the activity of a dedicated public body cannot be compared to the media (Bolleyer et al. 2020), interested in unveiling scandals involving senior personalities and giving less importance to minor executive agencies.

7. Conclusion

This essay assesses the effectiveness of revolving door laws across a sample of eight OECD countries framed in regulatory regimes exhibiting various degrees of sophistication. Drawing on career data from a sample of public debt managers (Silano 2022a),[45] the study provides empirical evidence that the regulation curbing the phenomenon exhibits limited implementation. Deploying an index that assesses the incidence of violations with respect to career moves, the study shows that France has the most effective regulatory framework. Conversely, particularly low performing regimes are in Greece, Austria and Spain. The cross-country assessment identifies cases of potential violations gaining momentum in the general management, a feature exacerbating the risk of conflicts of interest through the dynamic of 'switching-sides'.

The main policy implication is that the current framework exhibits limited effectiveness at detecting and managing breaches of post-public business appointment and incompatibility rules. Exploring potential reasons, the work identifies the lack of a credible deterrent, as jurisdictions have poor oversight and enforcement mechanisms in force, and regulations are not clear.

The study's main downside is that it investigates breaches of legislation without accounting for most recent reforms - e.g., the case of Greece, Italy and Spain - establishing, among others, ethics agencies. However, since such bodies function as per the model of self-regulation, the potential flaws of such governance design have been identified and assessed in France, Ireland and the UK. Another issue is the limited reliability of the results. In the UK and Germany, due to data privacy laws, human resources departments and enforcement officers cannot disclose whether the individuals listed in this study actually breached regulations. Hence, as the findings display only limited external validity, the policy implications shall be evaluated accordingly.

Addressing policy shortcomings, the study envisions the introduction of credible deterrence mechanisms as per the French regulatory framework – i.e. sanctions ascribable to criminal law – implemented by ethics bodies empowered with sound monitoring and enforcement tools. To accomplish this goal, policymakers shall

[45] See (n 2).

establish independent statutory bodies endowing the ethics commissioner with the power to impose sanctions. To facilitate compliance assessment, ethics agencies shall increase their degree of transparency by disclosing thorough data on the cases they scrutinise. Supporting the oversight task, executive bodies shall provide information on the background and prospect career moves of public officials and a record track of the private firms with whom they liaise. This data would foster coordination between executive agencies and ethics committees, thereby enhancing the effectiveness of revolving door policies.

However such ambitious reforms must deal with lack of political will (High Pay Centre 2015, 38; Demmke, Autioniemi, and Lenner 2021a), as regulatory interventions gain momentum in the aftermath of scandals (Dávid-Barrett 2015), without considering that an early introduction of restrictions might have a precautionary effect. In terms of implementation of reforms, excessively powerful anti-corruption agencies must cope with the risk of being dissolved by the elites they regulate – e.g., by depriving them of resources and institutional contacts (de Sousa 2010, 13). Additionally, the afore-outlined reforms might not be enough to enforce regulations, as in several cases those public servants who submit a request for approval are most likely to receive it.[46] Hence, the necessary condition to foster compliance is to update revolving door policies making them clearer.

An additional downside of a strict regulatory framework is that it could keep bright personnel out from the public service, ultimately weakening the public sector and missing the benefits of the phenomenon. However empirical evidence of such side-effect is scarce and inconclusive (Law and Long 2012).

Providing empirical evidence of actual and potential breaches of revolving door laws in a specific executive branch across a sample of OECD countries, this essay advances the nearly absent literature assessing the effectiveness of policies regulating the phenomenon (ALTER-EU 2011; Brooks and Hughes 2016; Grattan Institute 2019; Reyher and Fuchs 2021). Future research shall widen the analysis by dealing with a

[46] Investigations led by journalists have shown that the review procedure is actually 'rubber-stamp'. See cases from the UK (Public Administration Select Committee 2012), Spain (Sánchez 2016) and the US (Washington Post 2022).

broader set of institutional contexts and OECD jurisdictions. The expectation is to trigger encompassing projects which will establish and maintain databases tracing the career path of public officials, independently from seniority and the institution they serve.[47] This data would serve as a trove supporting ethics committees' investigations and quality assessments on the implementation of revolving door laws.

[47] See the work of the Corporate EU observatory (Corporate Europe Observatory 2023), OpenSecrets (OpenSecrets 2023) and Revolving Door Project (Revolving Door Project 2023).

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Appendix A

Table IV-A1. Restrictions towards public officials in the executive branch across dimensions of the revolving door phenomenon in 21 selected OECD countries

	Post-employment	Pre-employment	Incompatibility
Australia	●	❍	❍
Austria	●	❍	●
Belgium	❍	❍	❍
Canada	●	❍	●
Finland	●	❍	●
France	●	●	●
Germany	●	❍	●
Greece	●	❍	●
Hungary	❍	❍	❍
Iceland	❍	❍	❒
Ireland	●	❍	●
Italy	●	❍	●
the Netherlands	❒	❍	❒
New Zealand	❍	❍	❍
Portugal	●	❍	●
Spain	●	❍	●
Slovak Republic	●	●	●
Slovenia	●	❍	●
Sweden	❒	❍	❒
UK	●	❍	●
US	●	●	●

Source: Author's own analysis

Legend

● = Yes, restrictions for public servants of any seniority
❒ = Restrictions apply only to ministers, cabinet members and state secretaries
❍ = No restriction is in force

Table IV-A2. Ethics agencies across jurisdictions

	Ethics body
France	High Authority for the Transparency of Public Life (HATVP)
Greece	National Transparency Authority (NTA)
Ireland	Standards in Public Office Commission (SiPO)
Italy	National Anti-Corruption Authority (ANAC)
Slovenia	Commission for the Prevention of Corruption (CPC)
Spain	Office of Conflicts of Interest
UK	Advisory Committee on Business Appointments (ACoBA)

Source: Author's own analysis

Appendix B

Legal sources

I. Post-public appointment

Austria

Beamten-Dienstrechtsgesetz (BDG) 1979

Australia

Lobbying Code of Conduct of 2019

Finland

State Civil Servants Act of 2017

France

Criminal Code Art. 432-13

Greece

Law No. 1418/1984

Law No. 3528 of 2007 - Code of Status of Public Civil Servants

Ireland

Standards in Public Office Act, 2001

Civil Service Code of Standards and Behaviour, 2004

Italy

Law n. 215 of 2004

Art. 53, 16-ter, Law n. 165 of 2001

Portugal

Treasury and Public Debt Management Agency, IGCP, E.P.E. – Code of Conduct (2009)

Slovak Republic

Law No. 357 of 2004 on the protection of the public interest in the performance of the functions of public officials

Slovenia

Integrity and Prevention of Corruption Act of 2010

Spain

Law 5/2006, of 10 April, regulation of conflicts of interest of members of the government and senior public officials

Law 3/2015

Sweden

Act on Restrictions on the Transfer of Ministers and State Secretaries to Other than State Activities of 2018 (2018: 676)

UK

Civil Service Management Code

Business appointment rules for Crown servants – Published 21 December 2016

United Kingdom Debt Management Office - Standards of propriety - Version 1.3, October 2021

II. Pre-public appointment

France

Loi n° 83-634 du 13 juillet 1983 portant droits et obligations des fonctionnaires. Loi dite loi Le Pors

Slovak Republic

Law No. 357 of 2004 on the protection of the public interest in the performance of the functions of public officials

III. Incompatibility

Austria

Beamten-Dienstrechtsgesetz (BDG) 1979

Canada

Conflict of Interest Act of 2006

France

Loi n° 83-634 du 13 juillet 1983 portant droits et obligations des fonctionnaires. Loi dite loi Le Pors

Act no. 2013-907 dated 11 October 2013 on transparency in public life

Germany

Bundesbeamtengesetz (BBG) 1953

Greece

Law No. 3528 of 2007, establishing the Code of Status of Public Civil Servants

Ireland

Standards in Public Office Act, 2001

Civil Service Code of Standards and Behaviour, 2004

Portugal

Treasury and Public Debt Management Agency, IGCP, E.P.E. – Code of Conduct (2009)

Slovak Republic

Law No. 357 of 2004 on the protection of the public interest in the performance of the functions of public officials

Slovenia

Integrity and Prevention of Corruption Act of 2010

Spain

Act 53 / 1984, of 26 of December, related to incompatibilities of workers serving in public administrations

Sweden

Constitution of Sweden

UK

Civil Service Management Code

United Kingdom Debt Management Office - Standards of propriety - Version 1.3, October 2021

Conclusions

Dissecting the anatomy of the primary dealer system by drawing on a micro level inquiry, this dissertation casts light on the power asymmetries of the public-private nexus framing modern sovereign debt management. Systematically investigating actual, perceived and potential conflicts of interest inherent in the DMU-dealer partnership, the work aims at providing policymakers with solutions to address potential welfare-eroding idiosyncrasies hosted by the institutional framework.

The thesis of this dissertation is that due to the infrastructural power of finance and the government's surging dependence on capital markets to finance its debt (Blyth 2013; Streeck 2014; Braun 2020; Preunkert 2020a), the fiscal agent would have the incentive to collude with the industry, inducing the latter to deliver. Although beneficial for the individual interest of both parties, the practice would constitute a source of negative externalities for taxpayers, and a risk for public integrity and democratic accountability.

Supporting such an argument, this dissertation produces qualitative as well as quantitative insights that deserve policymakers' scrutiny. Depicting the micro foundations framing the DMU-dealer interaction, the work unveils mechanisms governing the dealership that potentially allow the parties to engage in collusion schemes. Significantly, this PhD thesis identifies the presence of a black-box in the DMU's decision-making process, a feature gaining momentum in the awarding policy of the dealers' benefits. In particular, the negotiation process surrounding syndicated and derivative deals encapsulates the risks of having a lack of transparency.

Developing a game theoretical model that analyses the strategic interaction between the DMU and the industry, Essay I posits that given the parties' micro foundations this opacity could bias the debt management policy in favour of the private sector. Switching the level of inquiry to the individual actors in charge of executing the debt management task, Essays II and III empirically identify and assess the potential effects of the revolving door phenomenon between the DMU and the dealers, with the overarching purpose of inferring regulatory insights. By drawing on the tools of

economic sociology,[1] case studies and elements of investigative journalism,[2] this thesis highlights how professional connections with the industry and career concerns of public debt managers could bias the debt management policy towards the private interest. As magnified by the controversial cases of syndicated and derivative deals, respectively involving Robert Stheeman and Domenico Siniscalco, past and prospect professional relationships with the dealers could constitute a vehicle channelling the risk of public-private collusion.[3]

Addressing the identified issues, the dissertation proposes the introduction of transparency policies to open up the black-box inherent in the governance of the DMU-dealer interaction. Policymakers shall introduce rules disclosing: (*i*) the criteria underpinning the dealers' performance assessment; (*ii*) the negotiation process of derivative deals; and (*iii*) the fees corresponded to the dealers for participating in syndicated auctions. The rationale for this regulatory approach is that it would allow both the industry and the government to: (*i*) preserve the dealership's mutual profitability, (*ii*) leverage on the value-creating effects of the revolving door, and (*iii*) foster public accountability and integrity. In light of the government's surging reliance on capital markets to finance its debt, the policy rationale is to preserve the DMU's ability to attract bright individuals with industry experience and valuable connections.[4] Consequently, a too restrictive regulatory framework might trigger the unintended effect of hindering the benefits of public-private synergies (Law and Long 2012; Zaring 2013; Zheng 2015).

Evaluating the degree of effectiveness of the regulatory framework limiting revolving doors, Essay IV identifies a gap in the implementation of restrictions by relying on the data set collated in Essay II. Furthermore, establishing a connection with Essay III, the study identifies the case of Domenico Siniscalco as a breach of post-public

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[1] I.e. sequence analysis, optimal matching and social network analysis (Abbott 1995; Jackson 2010; Gabadinho et al. 2011).

[2] I.e. submitting freedom of information requests, filing complaints to ethics bodies and carrying out interviews in a controversial policy territory – see, for example, the rationale that underpins the computation of syndicated fees in the UK (UK DMO 2021a).

[3] For an overview of the cases, see Essay III.

[4] For a discussion of the benefits of the revolving door phenomenon in government debt management, see Essay III.

employment restrictions (AGCM 2006). This evidence reinforces the argument which interprets the career move to Morgan Stanley as a potential vehicle for public-private collusion. Fostering the quality of implementation, the essay calls for the enactment of clearer conflict of interest policies endowing ethics bodies with monitoring and enforcement power.

As a counterargument to the thesis, one might contend that the negative externalities for taxpayers arising from collusion schemes might be negligible compared with the services provided by the financial industry. The dealers' constant participation in treasury auctions and commitment to foster sovereign debt market liquidity endow the central government with a safe and ongoing source of financing. However, the DMU's remit is to act in the interest of taxpayers and does not allow it to engage in activities leading to the mismanagement of public resources. Although increasingly constrained to the logic of financial markets, the fiscal agent shall abide by its mandate, even if a deviation from it would help the DMU improving its position towards the dealers in terms of trust and market access. Independently from the entity of the externalities, even the perception of collusion with the industry would have the potential effect of undermining the credibility of democratic institutions. Therefore, supporting policymakers in managing potential idiosyncrasies, future studies shall estimate the costs arising from collusion and compare these to the overall benefits of the primary dealer system.[5]

Stemming from this argument and the dissertation's insights, policymakers and regulators shall put in consummate effort to manage the potential risks of conflicts of interest, capture and collusion by enhancing transparency in public finance and its interaction with the industry. In a time of eroded trust in government which has been exacerbated by corruption scandals,[6] surging democratic backsliding (Mechkova, Lührmann, and Lindberg 2017) and the diffusion of conspiracy theories (Kużelewska

[5] The DMU-dealer strategic interaction epitomizes the inherent tension framing the relationship between capitalism and democracy (Howlett, Ramesh, and Perl 2009, 52; Streeck 2014). Such a dilemma is encapsulated in a study by Lemoine (2013, 21), according to which, the French DMU had allegedly been developing solutions to improve the profit margins of dealer banks. As the fiscal agent did not want to give taxpayers the impression of championing the industry's interest, evidence of such policy position remained confidential.

[6] See the recent 'Qatargate' scandal involving the European Parliament (Varvitsioti 2023).

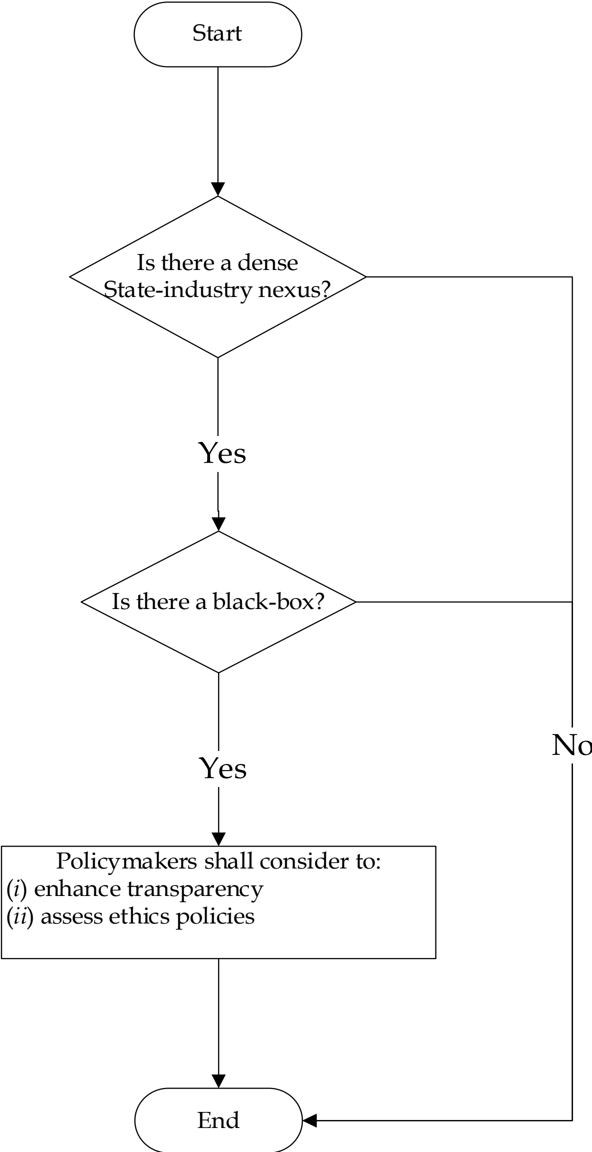
and Tomaszuk 2022), the perception of mismanagement of public resources would negatively affect trust in democratic institutions.

The overarching purpose of this dissertation is to provide a method of inquiry fostering the quality of public policy by preventing the rise of welfare-eroding idiosyncrasies. Adopting inductive reasoning, scholars, policymakers and practitioners shall apply the methodology implemented in this PhD thesis to identify institutional contexts entailing sources of potential risk for the integrity of the public good. As illustrated in the flowchart in Figure i, the reasoning process consists of three stages: (*i*) search for areas of public policy hosting a dense public-private nexus;[7] (*ii*) identify whether the related decision-making process entails grey areas; (*iii*) in positive cases policymakers shall consider introducing transparency policies and assess the effectiveness of ethics regulations within the organisation and jurisdiction.

Such an approach to deal with the dark-side of public policy (Howlett 2020; McConnell 2018) has the overarching purpose of guiding governmental and non-governmental institutions in constantly reviewing and setting ethical standards for democratic institutions – i.e. the Organisation for Economic Co-operation and Development (OECD), the United Nations (UN), the Group of States Against Corruption (GRECO) and Transparency International. Significantly, this methodology enriches the toolkits for the management of conflicts of interest in the public sector (OECD 2005).

[7] Candidate institutional contexts are those involving public procurement, external contracting, outsourcing of government tasks, privatizations and, more broadly, those framed in the wave of reforms labelled as New Public Management (Mcluaghlin, Osborne, and Ferlie 2002; Diefenbach 2009).

Figure i. Flowchart illustrating the process of identification of public policy areas entailing heightened risk of public-private collusion



Source: Author's own analysis

Concerning the institutional architecture framing DMUs and their relationship with financial markets, the dissertation has policy implications for: (*i*) the potential creation of future DMUs, and (*ii*) the EU regime regulating market abuse and short selling.

Acting as a catalyst for the process of European integration, COVID-19 had been triggering rumours for the potential creation of a European DMU which would underpin the issuance of transnational debt (Guttenberg 2020; Mehreen Khan 2020). In

light of prospective future institutional developments,[8] this doctoral thesis shall constitute a source of qualitative and quantitative insights steering policymakers through the eventual establishment of a multilateral fiscal agent abiding by the highest standards of transparency.

Additionally, this thesis entails policy implications potentially affecting the European Market Abuse Regulation (MAR) and the Short Selling Regulation (SSR),[9] as both regimes exempt national DMUs from their scope.[10] In light of the dissertation's insights, policymakers shall ponder potential reviews and, eventually, amendments. Given the existence of dense professional ties between the public and private sector, and opacity in the execution of the debt management policy, experts shall consider carrying out an additional assessment backing the exemption. In this regard, the original review by Valiante and Lamandini (2015) does not consider: (*i*) the principal-agent relationship framing the DMUs and the dealers, (*ii*) the endemic presence of the revolving door phenomenon linking the parties, (*iii*) the incompleteness of code of conducts, and (*iv*) poor oversight and enforcement mechanisms both within the DMUs and at the governmental level over the revolving door.

In terms of academic literature, this thesis advances the research in: (*i*) the political economy of government debt management, (*ii*) the revolving door phenomenon, and (*iii*) ethics regulation.

Casting light on the network effects and power asymmetries featured in the public-private partnership, this dissertation advances the literature in the political economy of sovereign debt management, an understudied area of inquiry (Preunkert 2020a; Rommerskirchen and van der Heide 2022). Identifying institutional contexts wherein the DMU could turn from principal to agent, the work advances socio-economic studies analysing the role of the government while interfacing with capital markets (Lemoine 2013; 2016; Preunkert 2020a). Additionally, by empirically describing the revolving door between government's fiscal agents and dealer banks, the thesis

[8] At the national level as well. See the recent case of Italy, where the potential establishment of an independent debt management agency is under discussion by scholars and policymakers (Minenna 2020; 2023b).

[9] Regulation No 596/2014 and Regulation No 236/2012 respectively.

[10] For MAR Article 6-(1)-(c) and for SSR Article 17-(3).

contributes to the research in the financialization of government debt management by identifying a mechanism through which public finance internalises the logic of capital markets (Trampusch 2015; Fastenrath, Schwan, and Trampusch 2017; Preunkert 2017; Trampusch 2019).

In terms of research on the revolving door, this thesis contributes to the literature by identifying and describing the phenomenon in an uncharted area of public policy. Moreover, striving to carry out a nuanced assessment of the public-private interchange, the work endeavours to overcome the limits of the literature on the topic, often blamed for being excessively focused on the phenomenon's downsides (Rex 2020; Seabrooke and Tsingou 2020; Chalmers et al. 2021). Pondering the risks and benefits of the revolving door, dealing with potential side-effects, the study designs a regulatory approach that focuses on enhancing transparency in selected areas of governance which constitute a hotspot of risk. The rationale underlying the policy solutions is to allow the public sector to strike a cost-effective balance between public integrity and the value-creating effects of the phenomenon.

Concerning the broader literature on ethics regulation, Essay IV constitutes a primer in the systematic assessment of the degree of implementation of conflict of interest regimes across OECD countries. In particular, the work advances the still nascent literature in the comparative analysis of ethics regulations, still circumscribed to regional accounts (Demmke et al. 2020), specific institutions (de Sousa and Coroado 2022; de Sousa, Sanches, and Coroado 2022), and evaluations carried out by governmental institutions – i.e. GRECO.

This thesis lays out multiple directions for future research. As afore-mentioned, upcoming studies shall embed the argument for public-private collusion in a positive dimension. In this sense, future work shall estimate the costs of collusion and compare these to the overall benefits of establishing a primary dealer system. Such evidence would guide policymakers in the process of considering potential reforms to the public-private partnership.

Stemming from the arguments developed in Essay I, future work shall test the underlying theoretical assumptions, by carefully monitoring the behaviour of the parties as the state of the economy evolves *pari passu*. Drawing on its micro-potential,

the data set presented in Essay II shall trigger future studies producing: (*i*) theoretical contributions to the literature on the revolving door, and (*ii*) empirical evidence on the effects of the phenomenon on sovereign debt management. The overarching expectation is that the work will trigger data maintenance projects replicating the study in other institutional contexts.[11] The objective of Essay III is that future studies assessing the potential effects of the revolving door will adopt an approach equally comparing benefits with risks. In light of Essay IV, research shall systematically identify the degree of application of conflicts of interest policies across institutional contexts and jurisdictions.

Additionally, future studies on the political economy of sovereign debt management shall analyse the institutional process which has transformed it into a transnational policy domain. In this regard, the network analysis developed in Section 5, Essay II provides early empirical evidence of a global epistemic community framing such area of public policy. Research in this direction would enhance the knowledge of the actors at the micro and macro level involved in the process of modernising sovereign debt management, as studies on the origins of such socio-economic phenomenon are still circumscribed to national accounts set in Germany (Trampusch 2015), Spain (Massó 2016), Israel (Livne and Yonay 2016), Ireland and New Zealand (Trampusch 2019).

[11] See, for instance, OpenSecrets (OpenSecrets 2023).

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