Financial Industry Power and Regulatory Policies: What Lessons from the Global Financial Crisis?*

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This article contributes to the debate on the influence of the financial industry over the design of financial regulatory policies by providing a critical review of the academic contributions that have investigated the involvement of the financial industry in post-crisis regulatory debates. This analysis will discuss the main sources of instrumental and structural power that have been theorised before the crisis in light of the evidence and theoretical contributions emerged since the crisis. This analysis will reveal how the challenges that financial industry groups face in shaping the content of regulatory policies have increased significantly in the aftermath of the financial crisis and identify what factors have shaped the influence of financial industry groups.

Keywords: financial regulation; financial industry; lobbying; financial crisis

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1. Introduction

Financial regulation is far from being a purely technical issue. On the contrary, as a rich debate within the political science literature has demonstrated, a variety of political factors shaping the design and implementation of financial regulatory policies at the national and increasingly international level. While scholars have approached this issue from a variety of different analytical perspectives, a dominant theme within

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this literature concerns the political role of the financial industry. A recurrent theme concerns the extent to which financial industry is often not uniquely on the receiving end of regulatory policies but rather it represents a political force actively influencing their design and implementation (Young 2013b).

References to the political influence of the financial industry are common in many analysis of financial regulatory policymaking in the US (Johnson and Kwak 2010; Lavelle 2013), as well as in other industrialised (Quaglia 2008) and emerging countries (Walter 2008). Moreover, in recent years different studies have extended this line of inquiry beyond the national level, discussing the influence of financial industry groups at the European level (Mügge 2006), as well as over the work of international regulatory bodies such as the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (Lall 2012; for a critique Young 2012). While these studies agree on the notion that the financial industry represents a key political force that cannot be ignored if we are to understand the development of financial regulatory policies, greater disagreement remains on the extent and the determinants of this influence.

The debate on the political influence of the financial industry has gained new impetus on the aftermath of the global financial crisis of 2008-2010. This historical event has set in motion an intense period of financial regulatory policymaking in all major jurisdictions as well as the international level (Helleiner and Pagliari 2011). References to the influence of the financial industry are frequent among the numerous scholarly works that have in recent years sought to shed light over the determinants of these post-crisis regulatory reforms. The opposition of different financial industry groups has frequently been described as one of the main forces constraining the level of ambition and the effectiveness of the reforms introduced in response to the crisis (Lall 2012). They have also been highlighted as the source of the failure to address some of the pre-crisis regulatory weaknesses such as the intensification of the too-big-to-fail problem in the banking industry and the failure to introduce adequate capital requirements (Admati and Hellwig 2013). At the same time, other scholars have detailed how in a number of high-profile episodes financial industry players have failed to secure that their policy preferences were incorporated in the policy process (Bell and Hindmoor 2014a; Culpepper and Reinke 2014; Young 2013b).

What can we learn from the regulatory response to the financial crisis about the capacity of financial industry groups to influence the design of financial regulatory policies and the channels through which this influence is exercised? This paper aims to make a contribution by providing a

critical review of the academic contributions that have investigated the regulatory response to the global financial crisis and discussing what lessons can be derived from this period for the broader literature on the political power of the financial industry.

This contribution will be organised around the discussion of two main theoretical perspectives in the analysis of financial industry power (Bell and Hindmoor 2014a; see also Ryan 2014). The first part of this paper will review the main claims in the literature regarding the *instrumental power* of financial groups. It will first review the array of resources that the financial industry groups can deploy to lobby policymakers (Section 2) and then contrast this with the evidence that has emerged in the post-crisis period (Section 3). This part will argue that the post-crisis regulatory reforms have highlighted how the traditional sources of financial industry instrumental power can be significantly constrained as a result of the changes in the context within which the financial regulatory policymaking process takes place and the degree of conflict that a given financial lobby will face from within and outside the financial industry.

The second part of the paper will discuss the *structural power* of finance. It will first review the different claims made by the literature in the years before the crisis concerning the sources of financial industry influence that derive from the position of finance in contemporary capitalist economies (Section 4). It will then discuss what lessons can be derived from the experience of the regulatory response to the crisis for to this literature (Section 5). This part will argue that the capacity of the financial industry to leverage its structural position in the economy into influence is not automatic, but it is mediated by a number of factors such as the dependence of financial firms on large markets, the macroeconomic cycle, the institutional context, and the ideational climate.

Overall this analysis will highlight how, despite the fact that the financial industry continues to be a major force in the development of financial regulatory policies, the challenges that financial industry groups face in shaping the content of regulatory policies have increased significantly in the aftermath of the financial crisis.

2. Financial Industry and its Instrumental Power

Most analyses seeking to uncover the sources of financial industry influence in the design of regulatory policies have focused on what in the literature is often called «instrumental power» (Barnett and Duvall 2005; Lukes 1974). Commonly associated with the «pluralist» or «neopluralist» perspective to the study of interest groups politics (Dahl 1961; Lowery

and Gray 2004), this analytical tradition emphasises the resources that different groups routinely deploy in order to lobby regulators and politicians in pursuit of their desired policy changes as a central element shaping the design of public policies.

Studies applying this analytical perspective to the financial regulatory policymaking have often emphasised how competition among stakeholders to influence the content of financial regulatory policies is characterised by a concentration of resources in the hands of the financial industry. In particular, numerous accounts of the causes of the financial crisis have made references to the economic resources that the financial industry has deployed towards lobbying policymakers in the years before the crisis (Johnson and Kwak 2010). For instance, in the US context the financial sector has spent US$ 2.7 billion in reported federal lobbying expenses during the decade that preceded the crisis (FCIC 2011). Beyond the money spent to directly lobbying regulators on specific financial issues, financial industry groups have been presented as capable of influencing regulatory policies by using their financial resources to finance electoral campaigns. In the US, the financial industry remains one of the major contributors to politicians' electoral campaigns across the political spectrum, with US$ 1 billion spent in campaign contributions by the financial sector between 1999 and 2008 (FCIC 2011).

The importance of financial resources in allowing interest groups to «buy» support for their preferred regulatory outcome has, however, been questioned. While some studies in the post-crisis period have found that the money spent by financial firms on political donations tend to be associated with more lenient treatment received from regulators and lower enforcement penalties (Correia 2014), the groups that are responsible for the largest amount of campaign funding are not necessarily the most successful in shaping outcomes (Baumgartner *et al.* 2009; Ryan 2014).

A number of scholars have therefore argued that in a highly technical domain such as the design of financial regulatory policies, the key source of influence that different groups can mobilise in order to shape regulatory policies is not control of financial resources but rather control over technical expertise. The technical complexity and dynamism of most financial issues means that the financial firms that are the direct target of regulatory policies often preserve a built-in advantage in terms of knowledge and information vis-à-vis other stakeholders (Lall 2014). The presence of strong information asymmetries among different stakeholders is understood to further increase the dominance of the market insiders and the likelihood of capturing the regulatory process (Laffont and Tirole 1991).

Access to policymakers is another source of direct influence identi-

fied by the literature before the crisis for playing a critical role in allowing the financial industry to shape regulatory policies. The notion that business actors occupy a special position within domestic policy networks, which grant them privileged access to policymakers, is a long-standing theme in the broader political science literature (Rasmussen and Carroll 2013; Schattschneider 1960). In the case of financial regulatory policymaking, the interaction of financial industry insiders with representatives of regulatory agencies is further enhanced by two characteristics of this area. The first element already been mentioned above is its complexity and dynamism. In a dynamic and technically complex environment such as financial markets, regulatory authorities are required to develop a constant and close interaction with the market participants they regulate in order to stay abreast of rapidly changing financial markets and to effectively perform their supervisory responsibilities (Baxter 2011; McCarty 2013). The second element is the hiring practices of a number of regulatory agencies. The term «revolving doors» has been used to indicate the fact that regulators often find their best career opportunities within the sectors they regulate, as well as referring to the tendency of regulatory agencies to hire individuals from the financial industry. Debates regarding the relationship between revolving doors and regulatory capture have primarily emerged in the US context, where the flow of people between regulators and the financial industry has remained a defining feature of the main regulatory institutions since their creations (GAO 2011). While European regulatory agencies have traditionally been characterised by career silos with bureaucrats spending most of their career in the state, other characteristics of the financial ecosystems in European countries have been presented as creating formal and informal links between the political and the banking systems. These include, for instance, the public control over financial institutions such as in the case of the German public saving banks (Sparkassen and Landesbanken) or Spanish *Cajas* (Grossman 2006), the role of foundations in Italy («*fondazioni bancarie*») that maintain close ties with the political system (Giani 2008), and the social networks embedded in the French *Grandes écoles* where future civil servants, politicians and bankers are trained together and come to form networks of influence (Monnet, Pagliari and Vallée 2014). A number of scholars have described these formal and informal ties between the political system and different segments of the financial industry as enhancing the influence of the latter by grant financial industry insider knowledge and preferential access to the policymaking process (Lall 2012).

Financial resources, technical information, and preferential access to the policymaking process have been presented by the literature not only as important resources that the financial industry deploys to lobby poli-

cymakers, but also as barriers to the emergence of countervailing coalitions. A common theme in the literature before the crisis remained the limited mobilisation of stakeholders and groups that may counterbalance the influence of the financial industry (Baker 2010; Scholte 2013). The mobilisation of stakeholders, such as deposit holders, investors, and consumers of financial services, has been presented as constrained not only by the technical complexity of financial regulatory policies but also by their diffuse nature which heightens the «collective action problems» (Olson 1965). The lack of countervailing forces has been described in the years before the crisis as particularly acute when the policymaking process occurs within independent regulatory agencies which are partially removed from traditional mechanisms of democratic oversight or international regulatory institutions which are further removed from traditional mechanisms of democratic oversight and lack transparency (Underhill and Zhang 2008).

In a nutshell, a central theme in the literature that emerged before the crisis has been how the design of financial regulatory policies is routinely constrained by the different resources that financial industry groups were able to deploy to lobby policymakers and the lack of countervailing forces in the regulatory process. The next section will discuss to what extent the regulatory response to the global financial crisis has challenged this view.

3. Limits and Challenges for Financial Industry Lobbying After the Crisis

The factors that had been identified by the literature before the crisis as underpinning the instrumental power of the financial industry have certainly been in display during the response to the global financial crisis. The introduction of extensive plans in different countries to tighten the regulation of financial markets has triggered vocal lobbying campaigns from different segments of the financial industry. The deployment of financial resources to lobby policymakers has continued to be key component of this political mobilisation, as highlighted by US$1.4 million spent daily by the financial industry during the crisis to lobby the US Congress (Americans for Financial Reform 2010). Financial industry groups have also reinforced their attempts to deploy their financial resources to steer electoral outcomes, with campaign financing from the financial industry outpacing those of any other industry during the last election 2013-14 cycle (Ryan 2014; Wagner and Fitzgerald 2014). Moreover, the financial crisis has not stopped the spinning of revolving doors between the fi-

nancial industry and key regulatory agencies in the US and beyond, with key policymakers such as the former head of the Federal Reserve Ben Bernanke and the former head of the US Securities and Exchange Commission Mary Shapiro joining financial firms shortly after the end of their appointment.

Despite the crisis has triggered an intensification of the traditional sources of instrumental power deployed by the financial industry, the literature has documented a wide range of cases where powerful groups have failed to shape the post-crisis regulatory environment (Clapp and Helleiner 2012; Kastner 2014). In order to explore this puzzle it is important to recognise how a number of factors and circumstances have limited the capacity of financial groups to turn the resources highlighted above into actual influence over the design of regulatory policies. Two factors have been particularly important in taming the influence of financial groups since the crisis, namely the salience of financial regulatory policymaking and the greater diversity of voices this has triggered within and outside the financial industry.

First, the influence of business groups is significantly affected by the external context in which their interaction with the government occurs. A key factor that has been identified as constraining the political power of business groups is the level of «salience» – that is the extent to which politicians perceive an issue as being important to their constituents (Culpepper 2011). Financial regulatory policymaking has traditionally been regarded as a low salience area, as debates concerning the regulation of finance usually taking place outside of the realm of electoral politics. Financial crises and scandals can, however, increase the political salience of financial regulatory policies among the broader electorate and create incentives among elected politicians to make appeal to anti-financial industry sentiments in order to extract electoral rewards and become engaged in areas that have traditionally been the preserve of technocrats. This sort of politicisation of financial regulatory policies has characterised the financial regulatory process in the aftermath of the financial crisis, especially in countries where the government has found itself financing significant bailouts for financial institutions during the crisis (Pagliari 2013b). This has led elected politicians in the US and other jurisdictions in Europe to significantly increase their engagement in this area (Helleiner and Pagliari 2011). The heightened salience of the financial crisis has been presented as weakening the influence of the financial industry via triggering a more adversarial relationship with policymakers and constraining their capacity to effectively veto regulatory reforms (Young 2013a).

In addition to these, a second transformation in the policymaking en-

vironment triggered by the financial crisis concerns the degree of opposition faced by the financial industry from other stakeholders. The greater attention towards financial issues brought by the financial crisis has increased the engagement in financial regulatory debates of pro-reform organizations, such as Americans for Financial Reform and Better Markets in the US, or the newly created Finance Watch at the European level (Kastner 2014). Also, non-financial business groups that represent the large end users of financial services have significantly increased their participation in the regulatory policymaking process in the aftermath of the crisis (Pagliari and Young 2014). As Helleiner and Clapp have argued, a coalition bringing together agricultural and commodity firms with a variegated group of NGOs and faith-based organisations has played an important role in pushing for more stringent regulation of commodity derivatives markets against the resistance of key financial groups (Clapp and Helleiner 2012).

The extent to which the regulatory environment triggered by the financial crisis has challenged the predominance of financial voices in the regulatory process should, however, not be overstated. Financial industry voices continue to remain the large majority of groups mobilising around different regulatory initiatives, as measured by different quantitative indicators (Drutman 2013; Pagliari and Young 2012; Ryan 2014). Nonetheless, many regulatory debates emerged during the regulatory response to the crisis have challenged the tendency to consider the financial industry as a homogenous entity by part of the literature reviewed above. The tendency to aggregate figures for the money spent by the financial industry groups to lobby policymakers often masks the fact that the interests and demands of different financial groups may diverge and in some cases counteract each other. For instance, the attempts to regulate OTC derivatives markets have been characterised by the re-emergence of pre-existing conflicts within the financial industry between the dealer banks dominating these markets and the exchanges (Helleiner and Pagliari 2009; Helleiner 2014b). Conflicts within the financial sector have also emerged between different segments of the same industry. For instance, Ryan has argued that the influence of large Wall Street banks over the design of financial regulatory policies after the crisis has been limited by the major fragmentation of the banking industry in the US compared to other industrialised economies. Ryan emphasises how the geographical presence of thousands of small community banks in each Congressional district and their key role in providing financing to households and small business groups made these financial entities a source of opposition to the interests of large investments banks on a number of issues during the regulatory response to the crisis (Ryan 2014).

Additional cleavages within the financial industry have also emerged when the design of financial regulatory policies have moved to the international level. For instance, while the literature on the design of the international banking standards (Basel II) before the crisis had highlighted the emergence of cross-national coalitions among international banks from different countries (Lall 2012; Mügge 2006), the revision of the same rules after the crisis (Basel III) has witnessed the re-emergence of frictions across different national banking industries, with French and German banks often pushing in a different direction compared to their US and UK counterparts (Howarth and Quaglia 2013).

The regulatory response to the crisis has also highlighted how conflict within the financial industry is in part endogenous to the regulatory process. For instance, the decision of regulatory authorities to require «over-the-counter» derivatives markets to be cleared through central-counterparties has led to the emergence of new conflict within the financial industry as some «buy-side» actors have mobilised in support of this regulatory solution (Helleiner 2014b). Along the same lines, the decision of regulatory authorities in different jurisdictions to impose additional regulatory requirements over «systemically important» financial institutions has created new divisions within the financial industry between those firms that met and those that escaped this classification (Ryan 2014).

An important lesson for the literature on the «instrumental power» of the financial industry that emerges from the regulatory response to the financial crisis concerns the importance of the advocacy strategies adopted by financial groups, an element often neglected by pre-crisis analyses focusing on the resources employed by the financial industry (Young 2013a). In particular, the changes in the regulatory environment triggered by the financial crisis and the greater opposition faced by stakeholders outside and within the financial community have forced financial industry groups to adapt the strategies adopted in lobbying policymakers.

One strategy highlighted by Young is the tendency of financial industry groups to engage in self-regulatory initiatives in the earlier phases of the regulatory process to pre-empt the imposition of more stringent regulatory measures by public authorities (Young 2013a). The use of self-regulatory initiatives to diffuse emerging «regulatory threats» is a common strategy adopted by the business community in the aftermath of crises and scandals (Haufler 2001). These strategies have frequently been successful in the years before the crisis when industry-wide self-regulatory initiatives have come to play a key role in governing a wide range of markets (Miller and Cafaggi 2013; Pagliari 2012; Tsingou 2004). However, the financial crisis had the effect of weakening the acceptance

of self-regulatory initiatives by policymakers as a solution to the regulatory failures highlighted by the crisis. One of the major trends of the regulatory response to the crisis has been the expansion in the perimeter of public regulatory intervention to encompass a number of sectors previously self-regulated such as OTC derivatives, rating agencies, and hedge funds (Pagliari 2012).

Unable to veto the introduction of regulatory proposals, financial industry groups have often concentrated their lobbying strategies on shifting the regulatory process towards a more favourable policy environment. One common strategy has been to focus the lobbying strategies along the policy cycle away from the policy-formulation, demanding for more time in the implementation of new regulatory policies (Young 2013a). As the memories of the crisis have faded and the conditions of the policymaking context have gradually become more similar to those in place before the crisis, financial industry groups have often been more successful in achieving concessions during the implementation of regulatory policies than in the rule-making phase (Young 2014).

A related strategy has been to engage in «forum-shifting» between the national and international levels. In particular, in numerous instances financial firms have responded to the imposition of more stringent regulatory measures at the national level by advocating greater international harmonisation (Pagliari 2013a). On the contrary, in those cases where international standard-setting has produced onerous regulatory outcomes, financial firms have frequently re-focused their lobbying efforts towards the domestic implementation of the same standards, often with greater success (Young 2014).

A third and final advocacy strategy adopted by the financial industry in response to the changed regulatory environment concerns the attempt to build coalitions with different non-financial business groups in order to take advantage of the greater legitimacy of these groups. Rather than emphasising the costs that different pieces of regulation would have over the financial industry per se, financial industry lobbies have often shifted the framing and emphasised the costs on the economy as a whole and over the capacity of end-users of financial services (Pagliari and Young 2014).

Overall, the experience of the regulatory response to the financial crisis has highlighted how traditional sources of financial industry «instrumental power» emphasised by the literature before the crisis can be constrained by changes in the context within which the financial regulatory policymaking process takes place, as well as by the emergence of conflict within and outside the financial industry. Under these conditions the capacity of the financial industry to react and adapt its lobbying strategies

to these changes in the policy environment remains a central element conditioning the their instrumental power.

4. The Structural Sources of Financial Industry Power

While the previous section has discussed the variety of resources that the financial industry is capable to deploy in the policymaking process to actively lobby policymakers, lobbying is not the only mechanism through which business groups can influence regulatory policies. In particular, a well established line of inquiry in the political science literature originated from the reaction to the writing of pluralist scholars reviewed above (Bachrach and Baratz 1962) has investigated the capacity of business groups to limit the choices available to policymakers in regulating their activities even without having to actively mobilise in an attempt to put pressures on policymakers. This is frequently described as «structural power» in the literature (Fuchs 2007; Lindblom 1977; Strange 1988).

While theories of structural power have been «marginalised» within the broader literature on business power (Culpepper 2011, 185), the concept has, however, continued to receive significant attention among scholars investigating the influence of the financial industry. This reflects not only the acknowledgment that the financial industry remains highly influential also in countries where lobbying and campaign financing play a more limited role (Woll 2014, 46).

A key source of structural power commonly associated with the financial industry concerns the role this plays in controlling access to a key resource, that is, credit (Baker 2010; Strange 1988). As Bell and Hindmoor have argued «governments typically need to anticipate and seriously consider the demands of banks because bank lending is a critical determinant of overall levels of investment and economic performance» (Bell and Hindmoor 2014a, 3). Also in the context of the regulatory response to the crisis, a number of regulatory policies targeting the financial sector have faced widespread opposition because of the negative externalities these may have on the cost and availability of credit, such as the imposition of higher capital requirements on banks (for a critique, see Admati and Hellwig 2013).

Moreover, the crisis has also highlighted how banks and other financial institutions derive structural power not only from their role as provider of credit to private market actors, but also as purchasers of government debt. The growth of public debt has been presented as tying more closely the interests of governments to the well-being of the finan-

cial industry, as well as making governments increasingly affected by new financial market intermediaries such as rating agencies (Sinclair 2005; Woll 2014, 54).

While the notion that the financial industry derives political power by controlling the access to credit has deep roots in history, a number of studies have suggested how more recent transformations in the nature of capitalist economies have reinforced the structural power of finance.

A key transformation identified by the literature as reinforcing the structural power of the financial industry is the increase in its size and centrality compared to other sectors in most industrialised economies since the 1970s, in what is often called the «financialisation of the economy» (Engelen 2008; Epstein 2005; Krippner 2005). This trend has not been interrupted by the financial crisis. For instance, Nesvetailova highlights how the share of domestic credit provided by the banking system tends to be larger than the size of the country's GDP in many industrialised and emerging economies, and how this share «has increased in most crisis-stricken states following the 2007–9 crisis» (Nesvetailova 2014, 544).

The size reached by the financial industry relative to the rest of the economy has certainly been a factor influencing the response to the crisis, in particular in a number of small countries such as Switzerland, Ireland, Belgium, Iceland, and Cyprus where the financial turmoil has threatened the solvency of the government (Woll 2014, 50). But also in larger economies such as the US, UK, and Germany, governments have intervened during the crisis to bailout financial institutions presented as «too big to fail». From this perspective, it may be possible to argue that the financial crisis has increased the structural power of finance as the concentration and interconnectedness of the banking industry has actually increased in different countries (Helleiner 2014a).

Other scholars have highlighted how the financialisation of the economy is not limited to the size of the financial industry but it also extends to other actors in the economy. From this perspective, a number of scholars have investigated in recent years the central role that finance has come to play in the day-to-day activities of non-financial firms (Baud and Durand 2012; Krippner 2005). This «financialisation of non-financial corporates» has heightened the impact of regulatory policies over the profitability of business firms. In facts, non-financial corporates have frequently mobilised against a number of regulatory reforms introduced in response to the crisis, thus directly or indirectly allying with key financial industry players (Pagliari and Young 2013; Young and Pagliari, forthcoming).

A second structural transformation in the global economy since the

1970s presented by the literature as reinforcing the structural power of finance is the globalisation of financial markets. Since the 1970s the removal of the restrictions against the international movement of capital that characterised the Bretton Woods system (Helleiner 1994) dramatically lowered the costs of transferring capital across different jurisdictions, as well as set the stage for the resurgence of international financial activities. A number of scholars have theorised how the mobility of capital has bolstered the position of financial market actors by providing a form of «exit» power that is not available to other market actors in the economy and created pressures on policymakers to introduce policies favoured by the financial industry in order to avoid capital flight (Andrews 1994; Cerny 1994; Underhill and Zhang 2008). The threat of relocating to countries with less stringent regulatory requirements has been presented as particularly significant for market activities that are not closely tied to one particular jurisdictions such as the trading of derivatives or the activities by hedge funds, described by the former head of the Federal Reserve Greenspan as «only a short step from cyberspace» (Greenspan 1998). Indeed, during the crisis a number of hedge funds as well as large banks headquartered in the UK have reacted to the imposition of more stringent regulatory requirements by threatening to move their headquarters or parts of their business abroad (Bell and Hindmoor 2014a; Sennholz-Weinhardt 2014).

Despite this, Culpepper and Reinke have noticed how «the threatened exodus has yet to appear; moreover, it appears to have had little effect on lawmakers» (Culpepper and Reinke 2014, 449). An explanation of the limited evidence concerning the capacity of financial firms to exploit this form of structural power is based on the strong dependence that particular financial industries may have on a single large domestic market for generating profits (Culpepper and Reinke 2014; Drezner 2007). Culpepper and Reinke have illustrated this dynamic in the context of bank bailouts during the crisis, arguing that the dependence of large American banks on the US domestic markets for their future income has limited their capacity to defy the punitive conditions attached to their bailouts (Culpepper and Reinke 2014).

To sum up, this section has discussed a number of structural characteristics of the financial industry such its role in providing credit to the real economy and to governments, its size, and its international nature that have been identified by the literature as indirectly allowing financial industry groups to gain leverage over policymakers even without actively lobbying policymakers. The next section will discuss to what extent this structural power has been in display in the response to financial crisis.

5. The Limits of Structural Power

While the financial crisis has refocused the attention of a number of scholars on the structural power of the financial industry, the structural importance of the financial industry in the economy has in many cases been a poor predictor of the stringency of the regulatory requirements imposed by different governments. In particular, countries with large financial systems such as the US, UK and Switzerland have often introduced more stringent regulatory measures than countries with smaller financial sectors (Howarth and Quaglia 2013; Young and Park 2013). In order to address this puzzle, it is important to consider different factors that have influenced the capacity of the financial industry to leverage its structural position in the economy during the response to the crisis.

A first factor significantly constraining the structural power of finance in the regulatory response to the crisis is the characteristics of the institutional context. As Woll argues, «the role of finance is not the same across countries, and differences are very relevant for the type of dependence policymakers will have on financial institutions» (Woll 2014, 48). For instance, the structural power of the banking industry in the US is constrained by the competition that these firms face from the capital markets in providing credit to businesses, limiting the structural power of the banking industry in the country (Roos 2012). Conversely, banks enjoy greater structural power in the context of different European countries where a concentrated national industry is responsible for most of the domestic credit intermediation (Howarth and Quaglia 2013; Ryan 2014). Along the same lines, the structural influence of the financial industry is mediated by the broader range of complementarities between the financial industry and the rest of the business community that characterise different «varieties of capitalism» (Hall and Soskice 2001). In particular, banks can be understood as having greater leverage in systems where they are connected to firms through long-term relationships compared to capital market systems where these relationships are more at arm's length.

While national financial ecosystems tend to remain quite stable over time, it is nonetheless important to note how changes in the institutional environment and government policies may affect the capacity of the financial industry to exercise structural influence. For instance, the construction of a European Banking Union transferring to EU level institutions greater authority over the regulation, supervision, resolution of financial firms has been presented as challenging the historical ties within national financial ecosystems and the influence of national banking

groups over their respective countries (Monnet *et al.* 2014; Spendzharova 2013).

A second factor highlighted during the regulatory response to the crisis for influencing the capacity of the financial industry to leverage its structural position is the broader macroeconomic context surrounding the financial regulatory process. For instance, during periods of economic «boom», political incumbents often face strong electoral incentives to avoid endorsing regulatory policies that may interfere with the flow of credit to the economy and jeopardize their chances of re- election. However, concerns regarding the potential impact of financial regulation in preventing small businesses from accessing credit and damaging the economy may also be particularly acute during economic downturns (Warwick Commission on International Financial Reform 2009). As a matter of fact, some of the same dynamics have been fully in display during the response to the global financial crisis, when concerns about the potential impact of regulation on banks' balance sheets and possible consequences on the extension of credit to the economy have brought politicians in a number of European countries to support the demands from their financial industry to water down these regulatory measures (Howarth and Quaglia 2013; Young 2014). From this perspective, the regulatory response to the financial crisis has highlighted how structural power of the financial industry over the design of economic policies is in part a cyclical phenomenon, alternating between periods of boom, crisis and bust (Helleiner and Pagliari 2011).

A third key element influencing the capacity of the financial industry to leverage its structural position during the regulatory response to the financial crisis are the dominant beliefs and ideas held by government leaders, regulators and the broader public. As Woll has argued, «it is […] insufficient to know what structural advantage the financial industry is endowed with, we also need to know how these positions become interpreted and employed» (Woll 2014, 50). Along the same lines, Bell and Hindmoor have argued: «business power is not structural in the sense of being 'automatically' achieved. It is inter-subjectively constructed» (Bell and Hindmoor 2013, 479). From this perspective, the structural power of business groups is mediated by the ideas that policymakers have concerning the business' role in driving economic growth and their perception concerning the extent to which more stringent policies may lead to an exodus of business actors to other jurisdictions.

In support of this perspective, different authors have highlighted how, during the decade before the crisis, the capacity of the financial industry to secure policies that were in its interest was bolstered by the predominant set of ideas among policymakers and «the worldview of the

Washington elite that what was good for Wall Street was good for America» (Johnson and Kwak 2010, 10). Similarly, in the UK context, Bell and Hindmoor have argued that «in the years prior to the banking crisis, politicians adopted regulatory policies, which suited the interests of the banks, not because they feared reprisals from the banks but because they genuinely believed that what was good for the banking industry would be good for the UK economy» (Bell and Hindmoor 2014b, 7). Other authors have highlighted how the ideas concerning the benefits brought by a light-touch regulation for the financial industry were reinforced by the dominant theories within the economics discipline, such as accepting, in the years before the crisis, the «efficient market hypothesis» and its implications regarding the self-correcting nature of financial markets (FSA 2009).

This insight concerning the inter-subjective nature of «structural power» is central to understand a key limitation in the influence of the financial industry during the response to the financial crisis. Some analysts have suggested that the financial crisis has triggered a partial rethinking of the role and benefits brought by the financial industry. For instance, the stringent measures introduced by the British authorities to regulate its banking system have been presented as «shaped and mediated by beliefs that the threats of the banks are not credible and that, contrary to calls from the banks, far-reaching reform will actually strengthen not weaken the banking and financial sector» (Bell and Hindmoor 2014b, 4-5). Similarly, other analyses have highlighted how an ideational shift within the regulatory community has led to the adoption in many jurisdictions of «macroprudential» regulatory frameworks (Baker 2012).

The financial industry is, however, not a passive actor in the definition of what ideas dominate the policymaking process. During the crisis, financial industry groups have often sought to counter the imposition of more stringent regulatory requirements by framing different regulatory issues as involving a trade-off between greater stability and lower economic growth (Admati and Hellwig 2013). In the words of Robert Jenkins, a former member of the Financial Policy Committee of the Bank of England, «bankers have succeeded in persuading pundits, public and politicians that higher capital is bad for the economy, bad for shareholder value and bad for the competitiveness of one's national financial champions» (Jenkins 2014).

From this perspective, the regulatory response to the crisis has highlighted how financial industry's structural power is not an automatic constraint on the financial regulatory process. Instead, this form of power remains dependent on the capacity of financial industry groups to deploy discursive strategies in order to produce and maintain the dominant con-

ception of their role and to shape public perceptions regarding the implications of different financial regulatory policies.

6. Conclusion

This article has contributed to shedding light on the issue of the power exercised by the financial industry in the financial regulatory process by reviewing the scholarly contributions that, in recent years, have explored the regulatory response to the global financial crisis.

Overall this analysis has revealed some significant departures from the way the influence of the financial industry has been theorised before the crisis. The first key lesson from the regulatory response to the financial crisis concerns our understanding of the conditions under which financial industry groups are capable of exercising «instrumental power» over the design of regulatory policies. Before the crisis, the literature has often theorised how financial industry lobbies influence the content of financial rules through the deployment of significant financial resources, technical expertise, and access to regulators. While these resources have certainly characterised the attempts by the financial industry to fend-off a number of regulatory policies in the aftermath of the crisis, the analysis put forward by this paper has highlighted how their success has often been constrained by the changes in the policymaking environment, such as the greater politicisation of financial regulatory policymaking, as well as competition from other actors within and outside the financial industry.

The second lesson that emerges from the regulatory response to the crisis concerns the «structural power» of the financial industry. The analysis has suggested that the capacity of financial industry groups to turn its structural role in the economy into influence is mediated by different factors such as dependence of financial firms on large markets, the macroeconomic cycle, the institutional context, as well as the ideational climate.

Overall, while most post-crisis analyses continue to regard the financial industry as a central player in global financial governance, the challenges that the financial industry groups face in shaping the content of regulatory policies have increased significantly in the aftermath of the financial crisis as a result of the changes the crisis has triggered in the financial regulatory policymaking. Consequently the success of the financial industry lobbying activities have more than ever become dependent on their capacity to adapt their advocacy strategies to the changed policy environment, as well as to actively leverage its structural position in con-

temporary capitalist economies.

Further research is needed to unpack the variations in the capacity of different financial industry groups to influence the content of financial regulatory policies that have been in display in response to the global financial crisis. Exploring these variations will require scholars to revisit some of the analytical lenses and assumptions that are common in many analysis of the financial industry in policymaking process. First, the fact that analyses of financial industry influence and «regulatory capture» have developed first in the US context has often shaped the analytical tool used to investigate this issue in other countries and at the international level. Future research should not overlook the fact that the mechanisms through which the financial industry's influence over the design of regulatory policies is reproduced varies considerably across different institutional contexts. Second, many of the regulatory disputes emerged in response to the crisis have often departed the characterisation of financial regulatory policymaking as a frontal and asymmetrical clash between a unified financial industry and weak and diffused interests such as taxpayers or depositor. Future research should pay attention to the diversity of voices within and outside the financial industry that populate the financial regulatory policymaking process, and how these voices condition the influence and strategies of financial industry groups. Finally, most existing analyses in this literature have focused on those issues where financial industry groups have been successful in shaping regulatory policies. The regulatory response to the crisis provides numerous instances where financial industry groups have failed to have their preferences incorporated in the regulatory policies. Future research should pay closer attention to these cases in order to gain a more complete understanding of the sources and limitations of financial industry power.

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