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The ‘Old’ and ‘New’ Politics of Financial Services Regulation in the European Union

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Abstract

This research examines the regulatory response of the European Union to the global financial crisis, addressing the questions of whether, how and why the global financial crisis has changed the ‘old’ politics of financial services regulation in the EU and resulted in the emergence of a ‘new’ politics. It is argued that, with a good dose of political opportunism and ‘anti-free market’ rhetoric, a continental advocacy coalition sponsoring a ‘market-shaping’ regulatory approach has capitalised on the crisis, tipping the balance of regulatory power in the EU in its favour, as compared to the pre-crisis situation.

Keywords:

financial regulation | financial crisis | European Union | financial markets | regulatory response

Notes

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Policy-makers refer to it as 'groupthink', whereby 'banks and regulators are in constant discussion and negotiation and tend to develop shared views and shared misjudgments, as they did on structured credit and wholesale funding' (Gieve 2009b: 11).

A policy paradigm can be defined as a shared body of causal ideas concerning a certain policy area. A useful distinction can be made between the most normative part of the paradigm, and ideas about the main policy objectives, instruments and strategies (Hall 1993). To a large extent this resembles the tripartite division of beliefs used in the advocacy coalition framework, examined below.

Shortly before the Bank of England took over banking supervision, Governor Mervyn King controversially called for the breaking up of the big banks (The Economist, 30 October 2010). He also remarked that '… if a bank is too big to fail … it is simply too big' (The Guardian, 17 June 2009).

This expression is used very frequently in the policy documents produced by the British Treasury, the FSA and the Bank of England.

This paragraph and the following paragraph are based on interviews carried out in Frankfurt, Paris, and Brussels in July 2011.

Lord Turner in an interview for Prospect Magazine in August 2009 warned that a 'swollen' financial sector paying excessive salaries had grown too big for society (Financial Times, 27 August 2009).

http://ec.europa.eu/unitedkingdom/press/press_releases/2010/10123_en.htm accessed in February 2011.

http://ec.europa.eu/internal_market/smn/smn56/docs/derivatives_en.pdf

EUobserver, 26 September 2008, http://euobserver.com/9/26814.

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