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Leveraged Interests:
Financial Industry Power and the Role of Private Sector Coalitions

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DRAFT

Abstract

The power of financial industry groups is a subject of widespread academic and public debate. Existing international political economy (IPE) research has highlighted how different resources, institutions and structural features allow financial industry groups to influence financial regulatory policymaking. In so doing, however, this literature routinely tends to neglect the wider array of interest groups beyond the particular financial industry groups being regulated. Actor plurality is usually assumed to be low or inconsequential. Such an assumption obscures the important role that actor plurality may play in the policymaking process. We present new quantitative and qualitative evidence demonstrating how global financial regulatory politics is more plural than most existing depictions would suggest. Actor plurality can have significant effects in ‘leveraging’ the influence of financial industry groups which are often able to tie their interests with those of other private sector groups affected indirectly by the regulation in question. We illustrate this underappreciated facet of financial industry power through a variety of case-based evidence from the formation of banking and derivatives rules in various jurisdictions, both before and after the global financial crisis of 2008-2009.

Keywords: Financial Regulation; Interest Groups; Derivatives; Banking; Coalitions; Business Conflict.

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The recent global financial crisis has contributed to a resurgence of interest in financial sector industry groups such as banks, credit rating agencies, and hedge funds, and the influence these groups and their associations exercise over the shape of contemporary financial regulation. Conjectures regarding the power of these groups are widespread within the international political economy (IPE) literature, and numerous authors have debated how different resources, institutions and structural features of contemporary economies enable financial industry groups to influence the regulations to which they are subject.

Such attempts by IPE scholars to explain the power and influence of the financial industry on regulatory outcomes have traditionally concentrated their analysis on a rather narrow set of financial sector actors. An implicit, and often untested, assumption informing most of the literature is that collective action problems, resource and information asymmetries, and exclusionary institutional contexts constrain the plurality of actors involved in the financial regulatory policymaking process. As a result, most depictions represent the financial regulatory domain as a very non-plural place, dominated by a few all-powerful financial industry groups influencing regulation they are subject to at will, while other non-financial actors have been assumed away and left absent from most analyses.

Contrary to this perspective, in this article we contend that the mobilization of a *plurality* of private sector groups both inside and outside of the financial sector is a key characteristic of the financial regulatory policymaking and an important factor in affecting the policy-shaping power of financial industry groups. When financial firms are targeted by a regulatory policy, their lobbying campaigns are often able to tie their interests to those of other private sector groups affected indirectly by the regulation in question and to form coalitions helps them to amplify – or ‘leverage’ – their influence over the regulatory policymaking process. Yet such leverage, we contend, comes not only with benefits but also, occasionally, with risks as well. Although the influence of financial industry groups can be enhanced through coalitions, it is weakened if non-

target groups mobilize against their regulatory preferences. Acknowledging the wider plurality of actors in financial regulatory lobbying in this way can give us a richer sense of how financial industry power actually operates and its limits.

The paper is structured as follows. In Section 1, we review the existing literature on the power of financial industry groups over the design of financial regulatory policies, and highlight the assumption of the lack of plurality within financial regulatory policymaking. In Section 2, we explore this assumption by explicating a quantitative analysis of which groups mobilize in response to regulatory policy proposals, using data from national and international policy consultations in both finance and other regulated sectors. The rest of the paper explores the implications of this actor plurality for financial regulatory politics and the influence of financial industry groups in this domain. Section 3 lays out the theoretical motivations for conceptualizing the influence of financial industry groups as leveraged and conditional on the mobilization of other groups within and outside the financial industry. The impact of this mobilization over the power of financial industry groups is then explored in Section 4 through qualitative case-based evidence of financial regulatory lobbying in the domain of banking and derivatives regulation.

Section 1 - Financial Industry Power and the Plurality in the Financial Regulatory Policymaking

In recent years, a large body of IPE literature has emerged which seeks to investigate the influence that the financial industry exercise over the regulatory policymaking process. Scholars from varying analytical perspectives have described this influence as extensive and systematic, as highlighted by the frequent reference to the term ‘regulatory capture’. This concept originally developed by the economist George Stigler (1971) in his work on the regulation of the trucking industry has frequently been used by scholars of financial governance to convey the notion that the financial industry groups who were to be regulated routinely *make* policy, rather than *take* policy at the expense of consumers and the general public (see e.g. Baker 2010; Ocampo 2009:10;

Tsingou 2008). A variety of different perspectives have been put forward to seek to explain this predominance.

First, a great deal of scholarship emphasizes the significant lobbying resources available to financial firm and associations, emphasizing the concentration of wealth within the financial sector being used to buy superior access to policymakers or to simply protect the industry from regulatory costs (Igan, Mishra, and Tressel 2009; Johnson and Kwak 2010). It is also widely acknowledged that money is not the only resource that financial industry groups possess in abundance. The private information possessed by financial industry groups, and their use of technical expertise are also seen as particularly valuable resources to shape regulatory policies in a highly technical and complex domain such as financial regulation, where regulatory authorities are often at risk of becoming “captive of knowledge specialists” (Lindblom 1977:120, cited in Tsingou 2006:172; see also Cerny 1994:331; Underhill and Zhang 2008:553).

Second, attempts to make sense of the power of the financial industry have also drawn scholarly attention to the institutional context in which financial regulation is designed and implemented. A central claim in this regard is that the formal independence of financial regulatory agencies in most jurisdictions disguises the privileged access to regulators enjoyed by the financial industry they regulate and oversee. Some scholars have focused on the formal institutional context, such as the mandate of regulatory agencies, their internal governance structure, or the often opaque and discretionary environment within which regulators and regulated firms interact (Underhill and Zhang 2008, Barth Caprio, and Levine 2012). Others have instead emphasized the role of informal institutions, such as the so-called “revolving doors” between individuals from the financial industry and regulatory agencies and their impact in fostering the emergence of like-minded policy communities (Braun and Raddatz 2010, Tsingou 2008; Johnson and Kwak 2010).

The third set of arguments deployed tends to stress what might be called the structural power of financial industry groups (Fuchs 2007). In particular, a broad range of research utilizing the concept of “financialization” has highlighted the increased importance of financial sector accumulation since the 1970s in the operation of the domestic and international economy

(Epstein 2005; Montgomerie 2008; Krippner 2012). The globalization of financial flows is understood as underwriting this structural power by constraining the policy environment in a way that benefits the interests of financial industry groups (Gill and Law 1989; Andrews 1994; Sharman 2010:15). Because of the central position of finance in the global economy, policymakers are wary of introducing policies that may disrupt the “golden goose” of financial sector accumulation, and they are more likely to listen to the concerns of financial industry groups than to those of firms in other sectors (Baker 2013).

Yet, even among the diversity of these perspectives, there is a certain ontological unity regarding the actors to be analyzed. IPE scholarship on financial regulation has centered predominantly on the specific financial industry group targeted for regulation, in isolation from the rest of the financial sector and indeed from the rest of the business sector in general. For instance, numerous studies which have investigated the evolution of the international regime for banking regulation have focused on the lobbying activities of banks and banking associations over the members of the Basel Committee on Banking Supervision (Wood 2005; Oatley and Nabors 1998; Singer 2007; Lall 2012, Young 2012). Interest groups outside of the financial industry were described by Helleiner and Porter as “almost entirely absent from the consultative process” that led to the formulation of the international Basel II agreement (Helleiner and Porter 2010:20). Studies that have examined the evolution of the European financial regulatory architecture have denounced the over-representation of large financial industry groups and the “under-representation of other societal stakeholders” (Mügge 2010:9). Scholte (2013) has argued that the involvement of NGOs, labour unions, faith-based organizations, consumer associations, and other social movements in response to the global financial crisis has remained sporadic and weak in comparison with the large advocacy campaigns that characterize other issues such as environment, human rights, poverty and trade, while financial industry interests have dominated (Scholte 2013). This tendency of theorizing financial regulatory politics as one where “plurality of active participation is severely restricted” (Baker 2009:198) stands in stark contrast to other areas of IPE scholarship such as international trade (Rogowski 1990), global environmental governance (Falkner 2007; Clapp 2005; Orsini 2011), exchange rate policy (Frieden 2002,

Henning 1994), global food governance (Clapp and Helleiner 2012) and energy governance (Levy and Kolk 2002), where competition between a plurality of actors has been acknowledged as an important component in shaping policy outcomes.

Indeed, this characterization of financial regulatory policymaking as a non-plural place is consistent with a number of seminal works within the political science literature. As Mancur Olson has argued, it is often not rational for firms and individuals not directly affected by a regulatory policy to participate in a group pursuing collective goods such as policies promoting financial stability (Olson 1965). On the contrary, concentrated groups of producers directly targeted for regulation have been described by Stigler as having in-built structural advantages that make it easier to overcome the free-riding problem (Stigler 1971). In the case of financial regulation in particular, the incentives for stakeholders not directly targeted by a piece of regulation to engage in collective action are further weakened by the diffuse distribution of costs associated with lax prudential regulatory policies (Wilson 1980), which will be borne by a large number of taxpayers and manifest themselves over the long-term in the form of financial instability. Some of the more specific features of global financial regulation emphasized by the IPE literature might further dissuade actor plurality: non-target groups might not have the financial firepower or the specialized knowledge required to closely monitor or even react to financial regulatory processes (Baker 2010; Scholte 2013). The same features of the institutional environment that privilege the access of financial industry groups are perceived as barriers constraining the mobilization of other groups who can't 'break into' the closed policy network that characterizes financial governance (Mattli and Woods 2009).

However, there are important reasons to expand our horizons in IPE of finance scholarship beyond the financial industry targeted for regulation. Recent studies of lobbying in the US have put into question the extent to which the logic of collective action represents significant obstacles to the plurality of interest groups mobilizing in the vast majority of issue areas (see Baumgartner et al. 2009, Godwin et al. 2012, 148). In the case of financial regulatory policies, the incentives for a plurality of groups to mobilize are further enhanced by the highly unique features of the resource that is being regulated, namely credit. The centrality of finance to

the rest of the economy means that financial regulatory decisions will have significant spillover effects not only over public goods such as financial stability, but also on more private goods such as availability of credit flowing to different sectors of the economy as well as to low-income groups (a dynamic explored within IPE by Seabrooke 2006). As a result, we can expect financial regulatory proposals to solicit a response from other private sector actors, such as corporate end-users of financial services, financial counterparties, and indeed the multiplicity of business actors that depend on flows of credit, which are less likely to be victim of collective action problems than the general public. Free-riding on the mobilization of the financial industry groups targeted for regulation would be rational only in those circumstances where their respective set of preferences completely converge on every issue, an unlikely event given the often multidimensional character of financial regulatory policies.

The question of whether the incentives to mobilize might outweigh the costs highlighted by the existing literature is fundamentally an empirical issue. Yet the IPE literature on financial regulation has so far failed to provide a more systematic assessment of this plurality of private sector actors and its consequences over the design of regulatory policies – a surprising absence given the centrality of finance in contemporary economic life. In the section which follows below we seek to address this gap by devising an empirical strategy to assess actor plurality in financial regulatory politics.

Section 2 - How Plural is Financial Regulatory Policymaking?

How plural is financial regulatory politics? To answer this question we generated a new dataset composed of the publicly available written responses to a wide range of policy consultations. In recent years, it has become common for regulatory agencies across the world in finance and other sectors to open regulatory proposals to formal consultative processes. From the perspective of regulators, responses to such consultations provide important technical feedback as well as a much-needed source of systematic information about private sector sentiment over policies and about the possible impact that the regulatory policy may have over

different groups. Private sector groups have a strong incentive to contribute to consultative processes in order to shape policies, as well as to leave a record of their positions. For this reason, data from these policy consultations is therefore widely deemed as valuable in the interest group literature (Préfontaine et al. 2010; Yackee and Yackee 2006; Godwin et al. 2012).

Policy consultations do not represent the only mechanism available for advocacy that frequently occurs behind closed-doors, and they do not allow us to weight the relative importance of individual respondents. However, these written responses to policy consultations do nevertheless provide a relatively systematic ‘trace’ of what actors tend to mobilize in response to different regulatory proposals and serve as a useful proxy indicator for actor plurality in financial regulatory policymaking.

We selected a wide variety of consultations on financial regulatory policy taking place between 1996 to 2012, at both national and international levels of governance. National-level consultations include countries characterized by very diverse institutional contexts and diversity in the role played by the financial sector, covering Canada, Germany, the United Kingdom and the United States. In addition to these national-level consultations, we included consultations conducted at the European Union level as well as those conducted by the transnational regulatory bodies widely discussed within the IPE of finance literature, such as the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO). In order to assess the potential uniqueness of private sector mobilization in the case of financial regulation, we also selected variety of consultations around regulatory policies concerning other sectors of the economy. In this regard, we selected consultations within the energy sector, health care and pharmaceuticals, agriculture, and the telecoms and information services industry. In total we collected and coded 20,235 responses to 562 different policy consultations across finance and these other sectors, covering a total of 63 different governance bodies (for list see the Appendix). For each comment letter in our dataset, we coded the identity of the authoring group, differentiating respondents who were from business groups from those groups in the trade union movement, consumer protection organizations, research

institutions, and NGOs. Table 1 below provides a breakdown of the different kinds of groups responding to policy consultations which target business activity in different regulated sectors.

Table 1: Percentage of Respondents to Consultations in Different Regulated Areas

<i>Respondent</i>	<i>Agriculture</i>	<i>Energy</i>	<i>Telecoms</i>	<i>Health</i>	<i>Finance</i>
Business Groups	78.41	84.02	93.14	78.03	89.07
Trade Unions	1.82	1.13	1.06	0.30	1.24
Consumer Protection	0.62	0.88	0.92	2.03	0.95
Research Institutions	4.80	3.82	1.41	9.08	2.97
NGOs	14.36	10.15	3.47	10.57	5.76
No. of Letters Coded	3,566	3,191	1,414	2,086	10,965

Such a ‘bird’s eye view’ of interest group mobilization across a range of regulated sectors provides some empirical support to those claims within existing IPE literature regarding the “exclusionary” nature of the financial regulatory policymaking. Indeed, Table 1 illustrates that respondents to financial sector consultations tend to be more dominated by business groups than other sectors (the exception being policy consultations in the telecoms sector).² Yet while consultations targeting finance are associated with low proportions of respondents from trade unions and consumer protection groups, this appears to be a relative mainstay of most regulated sectors. Where financial consultations appear to be distinct (along with telecom consultations) is with respect to the relatively low mobilization of NGOs. This provides empirical support the predominant view within the existing literature regarding the limited participation of non-business groups in financial regulatory debates. At the same, Table 1 suggests that this participation gap is not dramatically different from other areas.

What is missing from the data of Table 1 and from most analysis of the mobilization surrounding financial regulatory policymaking is a better understanding of the different *kinds* of

² Our sample of letters is larger for finance than for other sectors, however tests with multiple random sampling yielded very similar distributional results.

business groups that mobilize around regulatory policymaking. In order to better differentiate the plurality of actors within the business community, we disaggregated the respondents to policy consultations according to the economic location of each respondent within a spectrum of 53 different economic categories, across 9 different sectors of the economy.³ For each consultation, we identified the specific categories of groups who were the intended target of the regulation. This allowed us to code for each letter submitted to a consultation whether or not this group was being directly targeted for regulation (the ‘target’), whether it was within the same sector as the primary targeted group (‘sectoral co-habitant’), and whether it was outside the sector of the targeted group altogether (‘outsider). Thus for example in the case of a consultation on banking regulation, a bank respondent is coded as a target, but a mutual fund or insurance company is considered a sectoral co-habitant, while agricultural associations or manufacturing firms are coded outsiders.

Table 2: Sectoral Diversity of Business Respondents in Different Regulated Areas, as Percentage of Total Business Respondents

<i>Respondent</i>	<i>Agriculture</i>	<i>Energy</i>	<i>Telecoms</i>	<i>Health</i>	<i>Finance</i>
Targets	83.98	69.79	84.06	68.72	51.70
Sectoral Cohabitants	5.26	10.29	11.31	20.66	24.79
Outsiders	10.77	19.92	4.63	10.62	23.51

What Table 2 suggests is that, when we break down business respondents across sectors and industries, nearly half of all business respondents are non-target groups from inside and outside finance. Moreover, the respondents to consultations around financial regulatory policies tend to be more highly differentiated *within the business community* than those responding to consultations targeting non-financial groups. Thus while the regulation of finance is associated with considerably less participation by non-business groups such as NGOs or trade unions, this dominance of business stakeholders should not be mistaken for lack of plurality since the participation of business groups that are not directly targeted by the regulation is significantly

³ This categorization was created in an attempt to correspond as best as possible to sectoral categories of standard industry classification schemes used in actual accounting taxonomies of the economy, such as the North American Industry Classification Scheme (NAICS), and the International Standard Industrial Classification of All Economic Activities of the United Nations.

higher than in other sectors. More ‘outsiders’, i.e. groups not belonging to the economic sector being regulated, mobilize in response to financial sector consultations than any other sector. The only area where the mobilization of outsiders come close to the level of financial regulatory policies is the regulation of the energy sector, a sector that, interestingly, also provides ‘infrastructural’ resources foundational to the operation of the rest of the economy.

Section 3 - Why Actor Plurality Matters

If financial regulation is characterized by more actor plurality than existing IPE literature seems to suggest, what consequences does this have for financial regulatory politics and the influence of financial industry groups in this domain? The importance of the plurality of interest groups in shaping regulatory policies has a long pedigree in the political science and political economy literature. Since Stigler, economic theories of regulation even within the Chicago-School tradition in which he was working, have recognized that outright regulatory capture was unlikely given dynamics such as the preferences of consumers (Peltzman 1976) and other pressure groups competing for influence (Becker 1983). A variety of nationally-focused studies have built upon this literature and traced the origins of different aspects of US banking regulation since the 19th century such bank usury laws and branch banking restrictions in the preferences and strength not only of incumbents within the banking industry but also of competing financial industries such as insurance firms, consumers of financial services, and large industrial firms (Rajan and Zingales 2003; Benmelech and Moskowitz 2010; Kroszner and Strahan 1999; Abrams and Settle 1993) While these national statistically-focused studies offer important evidence in the form of a diffuse pattern over time, their focus has remain limited mostly to the US, while overlooking the international policymaking. Most importantly, these studies have overlooked the characteristics of the engagement of different interest groups in the policymaking process and their interaction in shaping regulation.

This has instead been a longstanding theme in American politics since the emergence of the pluralist paradigm (e.g. see Truman 1951; Dahl 1961; more recently see Lowery and Gray 2004; Baumgartner et al. 2009; for a review see Godwin et al. 2013). A variety of IPE scholarship

has taken up either implicitly or explicitly Lindblom's (1977) moniker of 'Neo-Pluralism' to the study of interest groups, conceptualizing the policymaking process as 'tug-of-war' among a plurality of organized interests lobbying policymakers on competing sides (see Falkner 2010; Cerny 2010; Mattli and Woods 2009).

As we have emphasized earlier, this attention to interest group plurality seems to be largely missing within the IPE of financial regulation literature. With some important exceptions (e.g. Fioretos 2010; Helleiner and Clapp 2012; Woll 2013), most existing IPE scholarship has presented the financial industry as a rather cohesive group. When the financial sector is differentiated at all in existing scholarship, this is primarily in terms of rivalries within the same financial industry (Mügge 2006), differences across the national contexts in which financial industry groups are embedded (Singer 2007; Woll 2013; Seabrooke 2006; Quaglia 2008), along different 'varieties of capitalism' (Macartney 2009). Such differentiation is important in many circumstances, but this perspective does not capture the plurality of actors within and outside the financial industry that may operate within the same institutional context.

We propose that actor plurality matters in financial regulatory politics because it affects the ability for the regulated financial industry group to get what it wants in the policymaking process. Actor plurality may translate into inter-group conflict, whereby a regulated financial industry group may have its influence over the policymaking process reduced; alternatively a financial industry group's influence can be 'leveraged' by the existence of supportive coalitions of groups that share similar preferences.

The possibility that a plurality of heterogeneous and potentially competing interests groups may join forces in coalitions has become a central aspect of contemporary interest group politics, as highlighted by a number of authors which have explored this phenomenon (Hojnacki 1997; Hula 1999; Mahoney 2008; Baumgartner et. al. 2009; Holyoke 2011).⁴ In the financial regulatory context, formal coalitions are relatively common across groups from different financial

⁴ With respect to this literature, our understanding of 'coalitions' is intentionally a broad one, which includes both formal coalitions where a plurality of interest groups establish formal structures (e.g. paid staff, an office, letterhead) and pledge resources, as well as instances whereby groups can be found lobbying on the same "sides" of a proposed piece of regulation (see Baumgartner et. al. 2009).

industries (e.g. the International Swaps and Derivatives Associations has banks, securities firms, and insurance firms as their members) but more rare between financial and non-financial groups (for an exception, see the Confederation of British Industry). Instead, collaboration between financial and non-financial groups is instead more likely to emerge around discrete issue areas and remain relatively informal, with the different groups sharing information, develop common positions, and coordinate their lobbying strategies in pursuit of similar policy goals without creating formal structures (Mahoney 2008: 168; Godwin et al. 2012).

In these cases, the financial firms more directly targeted by a regulatory initiative are more likely to play the role of “coalition leaders”, seeking to organize the efforts of other groups less directly affected by a regulation (Hula 1999, p. 124). These groups are more likely join a coalition only to achieve a specific private good or desire to appear active on a given issue without necessarily devoting significant resources. Indeed, the financial groups most directly targeted by a regulation will often subsidize the participation of ‘tagalong’ groups (Mahoney 2008: 168) by strategically providing information regarding the impact of a piece of regulation over their activities.

In order to explain why financial industry groups may devote resources towards this coalition-building activity is important to analyze the benefits that these groups accrue from the mobilization of other groups lobbying from the same side of a proposed piece of regulation. It is possible to identify three mechanisms through which financial industry influence is amplified by the mobilization of these groups.

First, different authors have suggested that coalitions provide a low-cost way for groups to expand their lobbying efforts by pooling advocacy resources. This includes both financial resources directed towards lobbying policymakers, as well as nontangible resources such as intelligence, expertise, and political information (Hula 1999; Hojnacki 1998). Coalitions with groups from other industries and sectors are of larger informational value than groups that remains within closely knit social circles (Carpenter, Esterling, and Lazer 1998). In the case of financial regulation where targeted financial groups often already enjoy an advantage vis-a-vis other groups in their financial resources and technical expertise, mobilizing other groups may

serve to bring a wider spectrum of advocacy resources to the (lobbying) table. Examples of complementary resources that targeted financial industry groups can mobilize through coalitions are for instance the mass membership or support that small business associations and citizen groups can mobilize, or the employment generating capacity of large non-financial corporates (Josselin and Wallace 2002).

A second reason why coalitions may affect financial industry power has to do with the access to the policymaking process. The access that different groups will have to the policymaking process is influenced not only from their individual properties but also from the position that they occupy within a communication network (Beyers and Braun-Poppellars 2013). Joining forces with groups from different sectors allow a targeted financial group to gain political contacts and to increase its capacity to establish new privileged channel of access to the policymaking process. This channel of influence is particularly valuable in those cases when the central location of the policymaking process shift from regulatory agencies at the national and transnational level to whom financial industry groups may have a privileged access towards government branches, parliamentary committees, or competing regulatory agencies that might otherwise be less receptive to the demands of financial lobbies and more receptive to the claims of the non-financial groups (Clapp and Helleiner 2012).

A third and final reason why coalitions can be expected to affect the ability of financial industry groups to influence regulation has to do with their capacity to function as a signaling device. The capacity of the financial industry groups to generate a broader coalition can convey information to policymakers about the widespread support of their claims and regarding whether opposing the proposal could prove to be detrimental for them in the future (Hula 1999). This signal is even stronger when financial groups are capable to recruit “strange bedfellow coalitions” (Mahoney 2008:175) such as traditionally opposing interests or groups that transcend the financial sector altogether. The incentives for the firm targeted by the regulation to build coalitions in order to signal broader support for its preferences is particularly strong in the aftermath of crises that increase the receptiveness of policymakers to cues about public support for different regulatory measures (Mahoney 2008: 170; Culpepper 2011). The ability of financial

interests to tie their concerns to the social concerns of a broader range of stakeholders can contribute towards legitimizing their demands and secure additional political support (such a dynamic is exemplified in Seabrooke 2006, pp. 112, 130).

While the diversity of private sector mobilization can enhance financial industry power, this relationship is not a linear one. The mobilization of non-target groups can, under some circumstances, also damage lobbying power when non-target groups, whether within the financial sector or otherwise, mobilize in opposition to the demands of the target group. Such ‘countervailing groups’ or instances of ‘business conflict’ (Lindblom 1977; Falkner 2007) can act to diminish the relative power of the targeted financial industry groups’ resources and the credibility of their claims. Many NGOs, consumer groups, or public interest groups have traditionally entered financial regulatory debates calling for more stringent regulatory policies to reduce the risks of financial crisis, thus frequently entering on a collision course with the interests of those regulated financial groups seeking to minimize their regulatory burden. However, the preferences are more ambiguous in the case of other actors such as corporate actors which rely on financial firms for the provision of credit and risk-management services.

While in the medium-term these firms would benefit from more stringent regulatory policies capable to mitigate the recurrence of financial crises and the costs these pose to the real economy, their preferences may be different in the short term. Some corporate firms may support more stringent regulation to reduce fluctuations and volatility in those markets affecting their business operations (Clapp and Helleiner 2012). However, others non-financial corporates may prefer less stringent financial regulatory policies in order to reduce the risk that the regulatory burden may trickle down and increase the costs of credit or costs of hedging their commercial risks (Pagliari and Young 2013). The likelihood of the preferences of these other groups converging with those of the financial industry targeted for regulation, will be influenced by a number of context-specific factors, such as the characteristic of the national financial system and the specific type of regulatory change proposed.

When a financial industry group is targeted for regulation, the extent of its influence can be understood as conditional on two factors which interact: namely, the extent to which other interest groups are mobilized over the policy issue in question, and the extent to which the preferences of non-financial groups converge with those of financial industry groups. Figure 1 below shows the variability of the predicted influence of a targeted financial industry group under different configurations of the mobilization and preferences of non-target groups.

Figure 1: Expectations of Financial Industry Groups Power

	Low mobilization of non-target groups	High mobilization of non-target groups
No Convergence of interests between targeted PFIGs and other groups	(A) -	(B) - -
Convergence of interests between targeted PFIGs and other groups	(C) +	(D) ++

As Figure 1 illustrates, the predicted influence of a targeted financial industry group over the policymaking process is at its greatest in those situations where non-target groups' preferences converge with those of the targeted group, *and* when these non-target groups also mobilized around the issue (*Quadrant D* in Figure 1 below). On the contrary, a targeted groups' influence over the policymaking process is at its lowest when the preferences of non-target groups are divergent and these groups mobilize to express these preferences to oppose or 'countervail' the targeted group (*Quadrant B*).

The left half of Figure 1 illustrates conditions that are more consistent with those described by the literature reviewed in the previous section, that is, when the mobilization of non-targeted actors is constrained. However, while in this case the impact of actor plurality on the influence of a targeted financial industry groups is less pronounced, the degree of convergence or conflict with the preferences of non-target groups is not inconsequential. When preferences converge but non-targeted actors' don't respond (*Quadrant C*), the targeted group may have a credible claim that the regulatory policy in question will affect more than just itself,

but given that its allies have not mobilized, it is unable to leverage the full extent of their resources. When there is no alignment in the interests of non-target and targeted groups (*Quadrant A*), the targeted group would not be able to make a credible claim regarding the dispersed consequences of not having their preferences met and it would be vulnerable to the contestation of policymakers defending broader societal concerns (see for instance, Seabrooke 2006: 109).

A number of factors are likely to influence the extent to which non-target groups actually mobilize. First, the plurality of actors is likely to be affected by the level of governance at which the financial regulatory policymaking occurs. In particular, the migration of regulatory policy design from the national level towards international bodies such as the International Accounting Standards Board (Nolke and Perry 2007) and the Basel Committee on Banking Supervision (Claessens Underhill and Zhang 2008), as well as the European level (Weber 2006; Mügge 2010) have been described as weakening the capacity of many interest groups to participate in the regulatory policymaking process as the asymmetries in the distribution of information and the organizational resources required to mobilize increase (Kahler and Lake 2009; Mattli and Woods 2009).

Second, the plurality of actors that mobilize around regulatory policies is likely to be influenced by the salience of regulatory policies. In this regard the mobilization of non-target groups has been described as more difficult during periods of “quiet politics” (Culpepper 2011), when financial regulation has little public salience and other groups may believe themselves to be at a disadvantage vis-a-vis the target group in understanding the distributional impact of highly technical regulatory policies (Baker 2010; Scholte 2013). In a similar vein, crises have been presented by the literature as favoring the mobilization of societal actors besides the targeted actors by producing a ‘demonstration effect’ which reveals the distributional implications of regulatory policies and opening new channels of access to the regulatory process (Mattli and Woods 2009).

Third, the plurality of actors that mobilize around regulatory policies is likely to vary across different countries. In particular, the range of non-financial corporate actors directly

affected by changes in financial regulatory policies is likely to be higher in the most financialized economies where financial channels rather than trade and commodity production determine a higher share of the profits of non-financial firms (Krippner 2012). But important variations in the kind of mobilization of non-financial groups are likely to be influenced the specific structures of different national financial systems, with economies relying on bank-credit as the primary source of financing generating greater responses around regulations affecting the banking system and while countries more reliant on capital markets triggering a higher mobilization around policies to regulate financial actors active in these markets (Zysman 1983).

This brief review of the factors influencing the mobilization of non-financial groups is by no means exclusive but it suggests that actor plurality in the financial regulatory policymaking is not static but may vary considerably even within the same policy domain. In the remaining section below we offer a range of qualitative, case-based evidence suggesting the importance of variations in actor plurality on the ability for regulated financial groups to influence the shape of financial regulatory policy.

Section 4 - Empirical Evidence of Actor Plurality Affecting Outcomes

Because of the dominant perception within the IPE literature regarding the limited plurality of financial regulatory policymaking, it is perhaps not surprising that coalitional dynamics in this domain have not been subject to much empirical scrutiny. In this section we illustrate the importance of actor plurality in shaping lobbying dynamics and regulatory outcomes by focusing on two key policy areas in international financial regulatory policymaking: banking and derivatives.

While these areas have provided the empirical backbone for the vast majority of the recent theorizing on the politics of international financial regulation, existing studies have focused mostly on a narrow range of financial actors, primarily banks (for an exception see Clapp and Helleiner 2012) Using a range of qualitative evidence we engage in process tracing (George and Bennett 2005) to highlight how the influence of these groups directly targeted by the

regulation has been influenced by non-target groups, both within and outside the financial sector. In other words, groups and dynamics often elided or neglected within the existing literature matter for actual regulatory policymaking outcomes and condition with influence of the targeted financial industry groups. We do so with explicit reference to the expectations regarding the impact of actor plurality over the influence of the financial industry groups targeted for regulation presented in the ‘leveraged interests’ approach presented above, although our analysis constitutes more of an illustration of mechanism at work than a discrete empirical ‘test’. Herein we are envisaging influence not as a deterministic relationship, but as a probabilistic one. As such evidence in favor of our argument would be that non-target groups’ mobilization is associated with different levels of target groups’ influence over the regulatory policymaking process in some way.

Our qualitative evidence not only shows the importance of actor plurality in two key policy domains for the literature on financial regulation, but does so in a range of different contexts and periods. In particular, while the analysis of global banking regulation will focus on regulatory initiatives that preceded the crisis, the analysis of derivatives regulation will focus primarily on the regulatory response to the crisis. Moreover, while the analysis in both areas will focus primarily on the policymaking process at the national and regional level, the evidence presented in this section illustrate how a plurality of interest groups nested at the national level can have important consequences on global regulatory outcomes.

Global Banking Regulation in Germany and in the United States

The Basel II Capital Accord represented the central international regulatory agreement for banking regulation prior to the global financial crisis. Developed by the Basel Committee on Banking Supervision, at the heart of the Accord was an attempt to generate banking regulatory standards whereby the amount of risk was correlated with the amount of regulatory capital a bank would have to hold. An extensive literature has built up around the formation of Basel II, often citing the ability of banks and banking associations to ‘capture’ the Basel Committee through various lobbying practices, to the exclusion of other business groups (Helleiner and

Porter 2010; Wood 2005; Tsingou 2008; Lall 2012; Young 2012). What is often elided in this literature however is the fact that a significant number of groups who mobilized were not banks at all, but rather groups that were not the targets of the regulation but who had concerns regarding the downstream costs of the regulation.⁵

The case of German banks' lobbying efforts during the formation of Basel II is illustrative of the importance of the non-target groups in affecting regulatory policy outcomes. Soon after the release of the draft of the Accord in 1999, the German banking community and its particular the formal peak association composed of the five national banking associations in the country (the ZKA, or 'Zentraler Kreditausschuss') began an active campaign of mobilization, raising concerns to their regulators about how the new system of risk sensitivity implied in the methodology would adversely affect lending to the *Mittelstand*, the small and medium-enterprises (SMEs) which formed the backbone of the German economy. The German banking community was able to secure broad access to policymakers, but their demands were not heeded by the German regulators who sat on the Basel Committee, who rejected the notion of adjusting an international financial agreement to ensure sector-specific protection for a class of firms (Bundestag 2000a; 2000b, 54-55; Interview with former senior German financial regulator, Berlin, 15 April 2009). Such a situation can be understood in the context of quadrant C in Figures 1 and 4 above; the banking groups were able to rely on the figure of the 'Mittelstand' to bolster their arguments but they mobilized largely alone.

This configuration of private sector lobbying in Germany soon entered a second phase as the details of the Basel II Accord became more concrete. Rather than the business community being simply *invoked* within bankers' arguments to policymakers, now non-financial sector groups within the business community became actively mobilized over the issue, such as the National Federation of Industry (the BDI, or Bundesverband der deutscher Industrie), the Association of German Crafts (the ZDH, or the Zentralverband der Deutschen Handwerks), and the German Federation of Industry and Commerce (DIHK, or the Deutscher Industrie and

⁵ In fact, just over half of the respondent letters to the Basel II consultation (those who were not individuals) came from outside the banking industry, with 32% from within finance but outside the banking industry (what we have called 'sectoral cohabitants' above), 13% from business groups outside the financial industry altogether, and 5 and 1% from research institutes and NGOs, respectively.

Handelskammerstag). Such groups feared forthcoming damage to lines of credit to SMEs a result of Basel II's particular content when it came to business lending.

These groups communicated their concerns not only to the Bundesbank (the German central bank) and BaKred (the German Financial Supervisory Authority), but also to members of the Bundestag, using their well-developed network to make their views known and provide MPs with information on the issue.⁶ Each of these business associations capitalized on the fact that SME promotion was often framed as the foundation for German economic recovery and innovation at the time, and were able to spread their message to journalists and politicize the issue as one of a global agreement damaging German small business, rather than simply damaging bank profits. Banks and the rest of the business community worked together. Both groups regularly exchanged information, and worked together to articulate their concerns to the Ministry of Finance, the BaKred and the Bundesbank. Several members of the ZKA even joined committees within the ZDH in order to encourage a consolidated effort, and private sector groups in this network also reached out to other business associations, such as the Central Committee of Electricians (ZVE, Zentralverband des Elektrohandwerks).⁷

While German regulators continued to put up some resistance, the extensive network of business mobilization throughout the country ignited considerable interest and sympathy from the Ministry for the Economy, the Ministry of Finance, and most importantly the Finance Committee within the Bundestag. This produced an all-party resolution mandating the German Basel Committee to ensure a positive overall result for the German SME sector, leading to an *increase* in credit to German firms (Bundestag 2001). When the German regulators failed to swiftly deliver the desired changes to the Accord, the bank-business coalition stepped up their mobilization even further, using their combined network of Chambers of Commerce to target MPs during an election year. Reflecting the widespread public efforts, the German Chancellor, Gerhard Schröder, threatened publicly to veto the translation of Basel II into European law unless significant changes were made (Engelen 2002:97). As a result of the widespread

⁶ Interviews with representatives from various private sector associations, Berlin, 1 August, 4 October 2007.

⁷ Interview with ZDH representative, 4 October 2007.

politicization of the Accord in Germany, the Basel Committee was effectively compelled to adopt in July 2002 an ‘SME package’ which allowed banks to set aside less regulatory capital against loans to SMEs compared with loans to large corporations (BCBS 2002). The private sector coalition of banking and business associations achieved their goal, and achieved significant gains as a result (Fabi et. al. 2005:521).

As the variation within the development of Basel II lobbying and SMEs illustrates, non-target actors improved the strength of the lobbying efforts first spearheaded by German banks, the group being regulated. Yet the mobilization of German banking associations was a necessary but insufficient condition to achieve a policy reversal by the German regulators, and thus actual policy change at the international, Basel Committee, level. Instead, it was the combined mobilization of business and crafts associations which generated the groundswell of politicized opposition which enabled the desired policy change, denoted by the shift from quadrant C to D in Figure 2 below.

Figure 2: Non-Target Mobilization in the Basel II Accord

	Low mobilization of non-target groups	High mobilization of non-target groups
No Convergence of interests between targeted PFIGs and other groups	(A)	(B) <i>US Mortgage Insurance Companies Mobilized Against Banks’ Efforts.</i>
Convergence of interests between targeted PFIGs and other groups	(C) <i>German banks achieved some modest concessions, but did not achieve their central aim.</i>	(D) <i>With a bank-business coalition, German banks achieved extensive policy gains.</i>

An important instance of lobbying in the United States over the same global regulatory Accord reveals the opposite dynamic at work. While residential real estate had always been an area of the Basel II Accord which was treated relatively favorably by the Basel Committee, after conducting more research into banks’ own internal risk practices, the Committee decided that certain conservative safeguards should be put in place, especially since mortgage activity was understood to be cyclical in nature, and because residential mortgages were such a large part of banks’ portfolios.

US banks did not take too kindly to this conservative change in the international agreement, as they feared constraints on their booming mortgage business. A variety of large US banks such as US Bancorp, JP Morgan Chase, Washington Mutual, Fleet, Wells Fargo and Citigroup took on the issue, and were all particularly vocal about what they perceived to be an irrational and arbitrary move by the Basel Committee. These banks coalesced into a variety of associations, such the American Bankers' Association, the Financial Services Roundtable, the Mortgage Bankers' Association, the Risk Management Association, and even formed a new group calling itself the Consumer Mortgage Coalition, a Washington-based advocacy group organized by the mortgage banking divisions of JPMorgan Chase, Citigroup, and Wells Fargo (American Bankers Association 2003:3; Financial Services Roundtable 2003:9; Consumer Mortgage Coalition 2003:3). Through detailed and well coordinated work within these associations, US banks generated a series of highly technical arguments critiquing the Basel Committee's residential mortgage policies (see in particular Risk Management Association Capital Group 2003:63). US banks had excellent access to their regulators and chief Basel Committee members, the US Federal Reserve and the Office of the Comptroller of the Currency (OCC), and engaged with them during a period where Congress was highly critical of US regulators' involvement in the Basel Committee and highly sympathetic to banks' concerns (e.g. FOIA 2004a).⁸ Sensitive to the concerns of their domestic constituency and an often highly politicized line of business (homeownership), the Fed began investigating the empirical dimensions of bankers' claims.

Yet just as this process began, another private sector group representing a specific segment of the *insurance industry* stood up to the lobbying plate. Specifically, the Mortgage Insurance Companies of America (MICA) began conducting its own research into the consequences of Basel II's mortgage model for its constituents' interests, even though its own activities were not being regulated by Basel II. As the actors on the other side of banks' mortgage risks, insurance companies had a very different take on mortgage risks than bankers did. In contrast to the banking community, the MICA argued strongly that the assumptions of the Basel

⁸ Interviews with numerous private sector groups and regulators, New York and Washington, July-August 2008.

Committee regarding the correlation in the default of residential mortgages were too permissive and did not reflect the additional risk associated with residential mortgage lending – a position they bolstered with detailed quantitative evidence (MICA 2003a:2-3, 9; MICA 2003b:10; FOIA 2004b).

MICA did not just argue their case to the US regulators, but also actively argued *against* the arguments that large US banks and their associations were making, stating that banks were offering a distorted picture of mortgage risk (MICA 2003b:12). US regulators not only heeded these arguments, but actively worked with this group to assess the kind of technical arguments banks were making at the time (Calem and Follain 2003:15-16; FOIA 2004b:4). The fact that the data provided by this insurance group had both greater depth and greater time coverage than the ones provided by the banking industry undermined the credibility of bankers' technical claims. While the Fed was initially open to the possibility of adjusting the policy in light of empirical evidence, they now became affirmed in the Basel Committee's overall approach. Thus in this case the mobilization of a non-target group with divergent preferences within the same financial industry *weakened* the influence of the group directly targeted by the regulation in question – the situation described in quadrant B of Figure 2 above.

The Regulation of OTC Derivatives Markets in the US and Europe

Evidence for leveraged interests at work can also be seen in the attempts to re-regulate financial markets and institutions since the global financial crisis. Exemplary in this regard are the international attempts to regulate the derivatives industry. The regulation of derivatives markets has been frequently explained through the activity of the small number of large banking institutions that dominate the trading of these products. This had not always been the case. In particular US farmers and other agricultural interests who use derivatives to hedge fluctuations in the price of agricultural products had been active since the emergence of the agricultural futures markets in Chicago in the nineteenth century in demanding the curbing of speculative activities (Clapp and Helleiner 2012). However, the influence of these non-financial interests had decreased since the 1980s as the relative importance exchange-based transactions in favour of

trades occurring bilaterally among financial institutions, or “over the counter”. A number of existing IPE scholarship has highlighted how in the decade before the crisis banks dominating these markets had succeeded in keeping the OTC markets outside of the direct oversight of regulators in the US and elsewhere through a combination of lobbying and self-regulatory initiatives designed by financial industry groups such as the ISDA (Tsingou 2006; Morgan 2010; McKeen-Edwards and Porter 2013).

The crisis of 2008-2010 has marked a turning point in the regulation of OTC derivatives. Association of these products with high profile episodes of financial instability triggered a change of attitude in the international regulatory community, culminated in the agreement of the G20 leaders to force part of these markets onto central counterparties and regulated exchanges in order to boost standardization and transparency (Helleiner 2010). Leading the charge in seeking to constrain the extent of these measures were those banking groups that were the primary target of this international agreement and who had in the past successfully lobbied the US Congress to exempt OTC derivatives markets from the purview of federal regulators with the Commodity Futures Modernization Act of 2000. However, unlike in the past, the capacity of these institutions to influence to shape the regulation was affected by the unprecedented plurality of groups mobilizing around derivatives regulation within the US Congress.⁹ Banks found themselves colliding with old opponents both within the financial sector, such as those exchanges which stood to benefit from new business due to the regulatory changes (Helleiner 2010), as well as outside finance, such as agricultural interests now in coalition with other firms from the food and energy sectors, consumer advocacy groups, NGOs, and different faith-based organizations (Clapp and Helleiner 2012).

However, a more novel development has been the mobilization of a large number of non-financial corporates using derivatives to hedge their commercial risks. Unlike agricultural interests calling for more stringent regulation of commodity derivatives, these firms have mostly mobilized in opposition to a number of aspects of the existing legislative proposals. A leadership

⁹ Lobbying disclosure forms reveal how the number of nonfinancial companies and associations lobbying the US Congress over derivatives grew more than tenfold between the years immediately before the crisis and 2009 (Scannell 2009).

role in soliciting this mobilization in the US was played by the US Chamber of Commerce, which even before the unveiling of the legislative proposal by the US Treasury started to collect data regarding the use of derivatives among its members (Master 2009; US Chamber of Commerce 2009). Most importantly, the US Chamber of Commerce played a strategic role in organizing an ad hoc coalition of non-financial corporate actors calling themselves the “Coalition for Derivatives End-Users” which included firms such as Ford Motor Company, General Electric, IBM, Apple and Boeing, and leading trade associations from the manufacturing sector (e.g. National Association of Manufacturers), real estate sector (e.g. The National Association of Real Estate Investment Trusts, the Real Estate Roundtable), and energy sector (e.g. Edison Electric Institute, the American Petroleum Institute, American Gas Association). The Coalition launched an extensive campaign, writing to all members of Congress to demand that the most onerous requirements imposed by the new regulation of derivatives, including the trading requirement, should not be extended to those corporate actors who used derivatives to reduce commercial risk and volatility in their normal business operations (Coalition for Derivatives End-Users 2009). The demands from corporate end-users of derivatives were opposed within Congress only by a small number of groups. In particular, a newly created coalition of consumer, labor, and small business organization named Americans for Financial Reforms argued in front of the US Congress that the legislation posed on corporate end-users “pale in comparison to costs that this crisis has inflicted on society, and even on their own firms”, while granting them exemptions created “the risk of creating loopholes large enough to fly a jet aircraft through” (Americans for Financial Reform 2009).

The mobilization of corporate end-users in the regulation of derivatives has not been limited to the US but it has also spread to Europe, where several large European non-financial started to lobby the European Commission when this followed in the footsteps of US authorities in proposing a similar regulatory framework for OTC derivatives. Here 164 companies across a wide number of sectors and countries joined the European Association of Corporate Treasurers, a grouping of 20 national associations representing treasury professionals, to warn that if Europe had followed the US lead this would have led to “a reduction in the amount of funds allocated to

productive investment in the [European] economy and less use of prudent hedging to eliminate market risks, with a resulting increase in uncertainty and volatility in the real economy of Europe” (EACT 2010, see also Raeburn 2009). These groups of corporate derivatives end-users in Europe and in the US have also at different times joined forces in jointly lobbying regulators at the international level (Coalition-EACT 2012).

This mobilization of non-financial corporate end-users had some immediate repercussions over the lobbying strategy of banks and other financial groups active in the derivatives markets. In a moment in which the severity of the crisis had severely tarnished their political capital, banks explicitly sought to align their interests with those of their corporate customers. The Securities Industry and Financial Markets Association, for instance, justified its plea in front of the US Congress to limit the scope of the legislation on the basis that this would reflect not only the interests of the financial services firms that constitute its membership but also of the “interests and concerns of those firms’ customers, the thousands of American corporations that benefit directly from the broad availability of derivatives transactions to manage various risks that arise in connection with their day-to-day business activities” (SIFMA 2009). ISDA published research in June 2010 revealing that the legislation which was being finalized by the US Congress would cost US companies as much as \$1 trillion in terms of capital requirements (ISDA 2010).

Indeed, the Congressional leaders who had been shepherding the legislation through Congress saw in these claims an attempt by banks to “tak[e] the end users in effect as hostages to get out from under some of these requirements” (Barney Frank, cited by Paletta 2010). Also US regulators sought to split the coalition emerging between dealers and commercial end-users, with the Chairman of the CFTC Gary Gensler arguing that 3 million business represented by the US Chamber of Commerce were misled by a “few big banks” which had an interest in keeping their transactions with end-users off exchanges to preserve their information advantage vis-à-vis their customers (Gensler 2010).

In the end, the claims advanced by corporate end-users and the banks regarding the impact of the regulation on derivatives in terms of employment resonated more with elected

officials in the US and Europe than the concerns expressed from regulators regarding the risks that granting exemptions to corporate end-users could create loopholes exploited by financial institutions. Both the Dodd-Frank Bill approved by the US Congress in July 2010 and the regulation the regulation initially proposed by the European Commission in June 2010 made special exemptions for how non-financial companies were to be treated, including the requirement to have their derivatives traded on regulated exchanges. Shortly after, the principle that corporate end-users could be exempted from the same clearing requirements was also inscribed in the international regulatory agenda by the Financial Stability Board (FSB 2010), which tasked the International Organization of Securities to monitor and coordinate these exemptions (IOSCO 2012).

The fact derivatives transactions occurring between financial institutions were not granted the same regulatory relief as those transactions having corporate end-users as one counterparty is indicative of the greater political capital that the latter group enjoyed during this period. However, the major banks were nonetheless able to benefit by the mobilization of corporate end-users. In fact, corporate end-users joined the financial institutions in opposing different measures which targeted banks exclusively but which had knock-on effects for corporates. The mobilization of corporate end-users against proposals introduced within the US Congress to limit the capacity of banks to trade customized derivatives outside of regulated exchanges (Coalition for Derivatives End-Users 2009), or forcing dealers to spin off their swaps trading desks in independently capitalized entities (Coalition for Derivatives End-Users, 2010) granted credibility to the claims advanced by the financial industry regarding the impact of these legislative proposals on the broader economy. As Congressman Barney Frank stated within Congress regarding the proposals to limit the trading of credit derivatives to those market actors with an underlying liability to insure: “When we first began to talk about this... I did not expect people in the business of selling these, people in the financial industry, to be happy with that. They weren’t ... We didn’t care whether they were or weren’t. What we began to hear were objections to some of this from those people for whom derivatives are not an end for making money as they are for the financial institutions, but a means so that they can go about their business of producing

goods and services with some stability, with some reasonable expectation about cost.” (US House of Representatives 2009: 2).

Ultimately, the joint opposition from banks and their non-financial customers towards those measures that would have significantly curtailed the market for credit derivatives contributed towards the watering down or abandoning of these proposals within Congress. This victory for the major banks (a situation depicted in quadrant D in Figure 3 below) stands in contrast with the treatment of commodity derivatives, where the opposition from agricultural and other commodity firms undermined the attempts of the banks to veto the introduction of severe position limits (a situation depicted in quadrant B in Figure 3 below) (Clapp and Helleiner 2012).

Figure 3: Non-Target Group Mobilization in the Regulation of Derivatives

	Low mobilization of non-target groups	High mobilization of non-target groups
No Convergence of interests between targeted PFIGs and other groups	(A) <i>Pre-Crisis: Banks dominate. Weak opposition from exchanges and agricultural groups</i>	(B) <i>Post-Crisis Derivatives Regulation: Agricultural groups and NGOs push for commodity derivatives regulation</i>
Convergence of interests between targeted PFIGs and other groups	(C)	(D) <i>Post-Crisis Derivatives Regulation: Coalition of Corporate End-Users push for Exemptions</i>

In a nutshell, the analysis of derivatives regulation illustrates how, on the one hand, the financial crisis has expanded the plurality of actors shaping the regulatory response that emerged after the crisis, and on the other hand that this mobilization has worked in the regulated industry’s favor. While the area of derivatives regulation is a particularly vivid area for the dynamic we wish to point out, it is by no means exhaustive of the instances in which actor plurality has had an important impact over regulatory policy since the crisis. For example, non-financial companies from different sectors such as retail, energy and medical research organized by the US Chamber of Commerce have mobilized in opposition to other aspects of the Dodd-Frank Act, such as the

provision in the US legislation limiting the proprietary trading activities in the federally-insured banking institutions (so-called Volcker Rule) (Abbott Laboratories et al. 2012, Thakor 2012), as well as the creation of a Consumer Financial Protection Agency (US Chamber of Commerce 2010). The regulation of hedge fund industry in Europe generated critical voices not only from the hedge funds targeted for regulation also pension funds and charitable foundations (including the Church of England) which in recent years had increased their investments in the industry (EFRP 2009, Jones 2009). Within banking, some of the most successful bank lobbying campaigns – waged both at the international level and within key jurisdictions such as the EU - have involved the rules associated with trade finance. A focus on bank lobbying misses important dimensions to this process, as banks and banking associations have worked alongside international business associations, such as the International Chamber of Commerce (BCBS 2011; ICC 2009; Senechal 2011; Bland 2013). In each of these cases, the mobilization of these non-target groups has played an important role in allowing different financial industries targeted for new regulations to extract important concessions just when the crisis had weakened their political capital (for a more general discussion, see Pagliari and Young 2013).

Conclusion

Charles Lindblom (1977) famously argued that in modern democracies the business community cannot be treated as just another special interest group. In the same way, the analysis presented in this paper supports the notion that financial industry groups are not just another special interest group within the business community. However, what distinguishes the politics of financial services regulation from other areas of the global political economy are not simply the elements identified by most analyses of financial industry power, such as the resources deployed by the financial industry, the nature of the institutional context within financial regulatory policies are designed, or the sheer size of the financial sector in the economy. Rather, our analysis points to the importance of the complex web of relations that derive from the location of the financial sector in the economy.

Using quantitative and qualitative evidence we have demonstrated that financial regulatory policymaking is a much more plural place than the existing IPE literature has specified. New global banking regulations generate mobilization not only from banks, but also from non-target groups such as industrial lobbies, crafts associations and the insurance industry. Regulating that most obscure of financial wizardry, complex derivatives, elicits not just the lobbying reactions of the banking industry that issue derivatives, but also all the many firms that utilize these financial products for their daily business operations, from manufacturing firms to chain restaurants. This analysis opens a number of questions and avenues for future research. More research is needed to understand the sources of the plurality of business groups mobilizing around financial regulatory policies, as well as the preferences and strategies of non-financial business groups engaged in financial regulatory debates. The analysis in this paper has only taken a preliminary step towards unpacking this plurality and better understanding how it may affect the financial regulatory policymaking process and its outcomes. Future work might explore the conditions under which actor plurality might be more or less likely, along the lines of what we set out at the end of Section 2.

Plurality not only exists; it also matters for policy outcomes. Small business, crafts, and industrial associations can reinforce the lobbying efforts by powerful banking and derivatives industry associations by providing complementary political connections as well as enhanced credibility to their claims regarding the broader costs of regulation. Financial industry groups have been able to ‘leverage’ their influence over the policymaking process by working alongside non-target groups which often share their same preferences.

At the same time, our approach suggests that this conditioning is not uni-directional. While the mobilization of non-target groups can represent an accelerant to financial industry groups lobbying power, in other cases actor plurality can turn into an Achilles’ heel. The mobilization of groups inside the financial industry, such as mortgage insurers, and outside of it, such as agricultural interests, may limit the influence of financial industry groups targeted by regulation by providing detailed empirical data to regulators or lobbying aggressively policymakers more favorable to their claims. In the same way as leverage is a source of

vulnerability in the financial world, also in the policymaking universe this plurality comes with risks such as the creation of countervailing coalitions.

Our argument is not that plurality is the single key to understanding financial industry power. It is one important, and often neglected factor in a multifarious set of factors that are often well spelled out in the IPE literature, and the contribution of this analysis should be seen as complementary to these analyses. However, the emphasis on actor plurality offered here does provide a corrective to the tendency of the existing literature of regarding financial industry influence over regulatory policymaking as consistent and systematic. Future scholarship needs to create room for greater variation in the influence of financial industry groups, and a greater sensitivity to the often plural politics of global finance allows for a more contingent and nuanced understanding of financial industry influence.

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Appendix - List of Governance Institutions in the Dataset

Institution	Country
Agricultural Marketing Service	US
Basel Committee on Banking Supervision	International
Bundestag Committee for Economics and Technology	Germany
Bundestag Committee for Health	Germany
Bundestag Committee for the Environment	Germany
Bundestag Finance Committee	Germany
Bureau of Land Management	US
Canadian National Energy Board	Canada
Canadian Ad Hoc Working Group of Provincial Securities Administrators	Canada
Canadian Competition Bureau	Canada
Canadian Provincial Securities Regulators	Canada
Canadian Council of Insurance Regulation	Canada
Commodity Credit Corporation	US
Commodity Futures Trading Commission	US
Committee for Payments and Settlement Systems	International
Conference of European Securities Regulators European Banking Authority	EU
Consumer Financial Protection Bureau	US
Department of Energy and Climate Change	UK
Department of Health	UK
Environmental Protection Agency	
European Commission DG Agriculture and Rural Development	EU
European Commission DG Competition	EU
European Commission DG Energy	EU
European Commission DG Enterprise and Industry	EU
European Commission DG Fisheries	EU
European Commission DG General Taxation and Customs	EU
European Commission DG Health and Consumers	EU
European Commission DG Internal Market	EU
European Commission DG Information Society	EU
European Commission Special Task force on Media and Publishing	EU
European Commission Radio Policy Spectrum Group	EU
European Securities and Markets Authority	EU
Federal Deposit Insurance Corporation	US
Federal Energy Regulatory Commission	US
Federal Housing Finance Agency	US
Federal Oceanic and Atmospheric Administration	US
Federal Reserve System	US
Financial Stability and Oversight Council	US
Food and Drug Administration	US
Food Safety and Inspection Service	US
Food Standards Agency	UK
Grain Inspection Packers and Stockyards Administration	US
Health Canada	Canada
House of Lords Committee on Energy and Commerce	UK
House of Lords European Union Committee	UK
House of Lords Science and Technology Committee	UK

Housing and Urban Development	US
Industry Canada	Canada
International Organization of Securities Commissions	International
Joint Forum on Financial Conglomerates	International
Northern Ireland Food Standards Agency	UK
Office of the Comptroller of the Currency	US
Organization for Economic Cooperation and Development	International
Office of Thrift Supervision	US
Rural Business Cooperative Service	US
Scottish Food Standards Agency	UK
Security and Exchange Commission	US
Small Business Administration	US
UN Office of the Commissioner for Human Rights	International
World Health Organization	International