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# great expectations, slow transformations

## incremental change in post-crisis regulation

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# chapter one | introduction: the financial crisis and the politics of reform: explaining incremental change

*Manuela Moschella and Eleni Tsingou*

## The global financial crisis and global financial regulation: big expectations but small change

> One of the things most astonishing to posterity about our own times will be not how much we understood but how much we took for granted. We revel in every new excuse to label our times revolutionary; ours is the atomic/permissive/electronic/affluent/space age. Attention centers on the glittering pageant and dramatic incident, rather than on the elusive processes that evoke the incidents. Revolutions must be visible, palpable, and immediate, although it is the annual change of only one percent that can produce some of the greatest transformations. Paradoxically, a glib preoccupation with the 'revolutionary' has tended to reduce our sensitivity to change itself (Heclo 1974: 1).

Since the onset of the global financial crisis, 'change' has been the catchword in the international regulatory debate. In an attempt to respond to the weaknesses in financial regulation and supervision exposed by the crisis,[1] important legislative changes have been adopted in the world's leading financial centres, notably the Dodd-Frank Act in the United States and European Union legislation mandating the creation of new pan-European regulatory and supervisory authorities. At the international level, the leaders of the Group of 20 (G20) endorsed major reform proposals, partly in conjunction with the revamped Financial Stability Board (FSB) in areas such as banking regulation, compensation practices, resolution regimes, the development of macroprudential frameworks and tools, and the workings of derivatives markets and their infrastructure.[2] Interestingly, the regulatory-reform process has often been presented in terms of a revolutionary transformation. At the height of the crisis, several political leaders suggested

1. The literature on the causes of the global financial crisis is already quite large and it is not the purpose of this volume to review it thoroughly. For an introduction to the causes of the crisis from an economics perspective *see*, among others, de Larosière 2009; IMF 2009; Carmassi, Gros and Micossi 2009; Gorton 2008; Obstfeld and Rogoff 2009; Truman 2009.

2. At the time of writing, the latest report assessing the implementation of G20 recommendations for the strengthening of financial stability was issued in June 2012. Financial Stability Board, *FSB Report on the Overview of Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability,* available at http://www.financialstabilityboard.org/publications/r_120619a.pdf.

comparisons between the current reformist moment and the Bretton Woods moment (Parker and Barber 2008; Porter, Winnett and Harnden 2009), when the creation of new rules and institutions 'revolutionised' international monetary co-operation. Much early emphasis from policy-makers and indeed scholars[3] focused on the potential for significant transformation in global financial regulation. Referring to Peter Hall's (1993) seminal study on the paradigmatic shift in UK economic policy-making, Blyth (2013) laments the absence of third-order change. Nevertheless, as the quotation from Heclo at the start of this section reminds us,[4] the disproportionate attention given to revolutionary change risks reducing our understanding of change itself.

This is important as the process of international financial regulatory-reform as it has evolved, displays few of the revolutionary characteristics that have been touted. For instance, although progress has been made on microprudential banking regulation with the introduction of higher and counter-cyclical buffers into the Basel III accord of the Basel Committee on Banking Supervision (BCBS), Basel III has not altered the practice of allowing banks to measure their own risk when setting capital requirements (Haldane 2012) and there is still no agreement on what should exactly count as liquid assets to satisfy the proposed liquidity standards. Furthermore, a stinging issue throughout the crisis, that of 'too-big-to-fail' financial institutions, remains under-explored and instruments aimed at increasing the loss-absorbency capacity of systemically important financial institutions (SIFIs) have yet to be incorporated into formal and binding rules. As for the development of macroprudential regulation, which aims to preserve the health and stability of the financial system as a whole, agreement on what policy tools fall within its scope is still in its infancy (*see* Baker in this volume). In addition, the creation of an effective cross-border resolution scheme is still on the nominal 'to do' list, as is the regulation of the over-the-counter (OTC) derivatives market and the shadow-banking system (Carstensen and Rixen in this volume). Finally, and despite the criticisms it has attracted, the International Accounting Standards Board (IASB) has displayed remarkable stability in the content of rules, governance structure, and decision-making (*see* Botzem in this volume). In short, the process of international financial reform has fallen short of initial (and proclaimed) expectations of rapid and revolutionary transformation and has instead been characterised by small and incremental changes.

The incremental pattern of change in global financial regulation may also be considered puzzling in theoretical terms – primarily because the conditions for the kind of 'punctuations' that are associated with very large and often very consequential policy shifts appeared to be in place.[5] Indeed, it is often recognised

3. *See*, for example, Posner 2009; Singer 2009.
4. The quotation is linked to Heclo's study on the evolution of social policy in Britain and Sweden (1974).
5. According to Baumgartner and Jones (1993) incremental policy-making, while common and dominant most of the time, is only one of two models of policy-making: periods of incremental adjustments are routinely 'punctuated' by short-lived bouts of radical policy change.

that an exogenous shock, such as the one offered by the global financial crisis, is likely to trigger a reaction that overcomes the institutional frictions that usually constrain policy change. Periods of 'normal' marginal adaptation are interrupted by more infrequent and atypical periods of 'non-linear' policy changes (Howlett and Migone 2011: 54). Such changes are more likely to occur when the exogenous shock interacts with heightened public and government attention and with the alteration of the policy subsystem that is involved in decision-making (Baumgartner and Jones 1993, True *et al.* 2007). These are precisely the conditions that characterised the post-crisis environment. Indeed, the crisis catalysed public and policy-makers' attention around financial regulatory issues (*see also* Helleiner, Pagliari and Zimmermann 2009). At the same time, the debate on the content of financial rules became increasingly politicised, as attested by the primary role accorded to the G20 political leaders in international financial negotiations – although experts retained a primary role in diagnosing the crisis and suggesting reform proposals. As such, the conditions for a punctuated type of change were in principle in place; instead, incremental change prevailed.

Why was the reform process incremental although the conditions for more rapid and abrupt transformation appeared to exist? And is there anything specific about financial policy that prevents punctuations from occurring, making this policy field different from those where the existence of punctuations is now well established?[6]

This book answers these questions, investigating the empirical pattern of incremental change in the post-crisis financial regulatory debate. Based on examination of a variety of policy fields within the area of finance broadly defined, the findings of this collaborative project suggest that the specific institutional frictions that characterise global financial governance and the activity of change-agents and veto-players involved in the process of global regulatory change make financial regulation largely immune to the punctuation model of change. Whereas in the standard punctuated model, institutional frictions beget punctuations – they can slow down change but they lead to bigger policy changes than in cases where external inputs would have been introduced more gradually – the combination of institutional frictions with the distinct type of actors involved in the international regulatory process prevents policy punctuations from occurring.

Although we collectively demonstrate that the process of change in international financial rule-making and content, and of the institutions of finance, does not fit with the punctuated model of policy change, we nonetheless argue that the incremental changes here examined do not rule out bigger and deeper transformations. This means that, in finance, paradigm-change is less likely

6. The best-studied example of the combination of incrementalism and occasional punctuations is governmental budgeting (Jones *et al.* 2009). Indeed, the frequency distributions of public budget changes, both in one-country and cross-country studies, suggest that budgeting is highly incremental most of the time, but is occasionally punctuated by very large policy shifts (Baumgartner, Foucault and Francois 2006; Breunig and Koski 2006; John and Margetts 2003; Jones and Baumgartner 2005; Mortensen 2005; True *et al.* 2007).

the result of an exogenous shock than is the case in the area of budgeting (Baumgartner, Foucault and Francois 2006; Breunig and Koski 2006; John and Margetts 2003; Jones and Baumgartner 2005; Mortensen 2005; True *et al.* 2007) or macroeconomics (Hall 1993). In finance, as will be discussed in the Conclusion of this book, paradigm-change is instead associated with incremental, endogenously driven dynamics. In this light, our findings support the body of scholarship that suggests that radical transformations are not solely the result of the orthodox homeostatic or exogenously driven punctured equilibrium model of policy change (Cashore and Howlett 2007; Coleman *et al.* 1996; Howlett 2009; Thelen 2003; Mahoney and Thelen 2010). Radical transformation may also result from the cumulative effects of previous policy changes, thus underscoring the importance of 'process sequencing' (Haydu 1998; Howlett 2009; Kay 2007; Thelen 2003).

The editors and contributors of this volume have set themselves an ambitious goal, that of speaking to scholars interested in the dynamics of policy change at large. We find that the importance of investigating factors at all levels of governance (domestic, interstate and transnational) is of increasing relevance to understanding policy change, especially as the type of fragmented governance encountered in finance against a multitude of actors and vested interests, can arguably be observed in other policy processes. That said, the book is primarily aimed at enriching international political economy (IPE) scholarship. Indeed, one of the motivations of our research project was dissatisfaction with the treatment of the process of change in the existing IPE literature on global financial regulation. Specifically, existing studies offer only partial insights into the question of incremental change and seldom address it directly. Scholars of international financial regulation have focused mostly on the causes of regulatory change rather than what pattern change actually follows. As a result, while important insights have been developed on the actors involved in the politics of reform of international financial rules and on the instruments and resources used in the reform process,[7] we have yet to get a comprehensive picture of why and how change is sometimes quick and at other times slow to materialise, or why, how and when it entails a profound rethink of previous practices or amounts to little more than small adjustments in existing instruments.

This is not to say that existing scholarship is silent on the dynamics of policy change. To the contrary, several scholars have made a number of suggestions that are key to the puzzle explored in our study. For instance, in his work on global finance as a technical system, Porter (2003) has suggested that the regulation of global finance is predisposed towards incremental developmental trajectories because of the legacy of previous technical knowledge and patterns of collaboration. Focusing on governmental policy networks, Baker (2006) has suggested some of the factors that help account for the incremental pattern he detects in the G7 case,

7. For instance, as will be discussed at greater length below, important insights have been developed regarding the influence exerted on the process of international financial reform by actors such as governments (Drezner 2007), national regulatory authorities (Singer 2007), international organisations (Abdelal 2007), transgovernmental networks (Baker 2006) and transnational networks of public and/or private sector officials (Porter 2005; Tsingou 2008).

# chapter four | global in life, still national in death? special bank resolution regimes after the crisis

*Martin B. Carstensen*

## Introduction

One of the most costly lessons of the recent financial crisis in Europe and the US has been how important an effective framework for resolving financial institutions is. From the dramatic and catastrophic bankruptcy of Lehman Brothers, which left markets and regulators in that famous state of panic, to the inefficient break-up of the Benelux-based Fortis group, in which national prerogatives took the front seat at the expense of co-operation, or the choice of the Icelandic state only to provide help to depositors domiciled in Iceland, leaving UK and Dutch depositors uncompensated, the lesson was heeded that a fundamentally stable international financial system is premised on states building efficient national resolution regimes that are then more or less harmonised through international regulation. This is especially clear in the case of large international banks, which benefit from a global marketplace in which to offer their services but still come home to the national regulator to die. As famously pointed out by Bank of England Governor, Mervyn King (2009), global banks are global in life, but national in death. To close down banks more effectively – both banks that work across borders and banks that are more nationally oriented – a popular argument in the post-crisis debate has been to set up special bank resolution regimes, that is, a set of policies that give the authorities enhanced powers to prevent, intervene and resolve ailing financial institutions. The idea is controversial, because authorities potentially gain increased power over financial institutions and because moving these regimes to an international level naturally leads to a pooling of national sovereignty.

Similarly to the other case studies in this volume, this chapter asks if the institutional changes in integration and harmonisation of bank resolution regimes in the wake of the crisis are of an incremental nature or best characterised as a punctuated equilibrium. The short version of the answer is that, following the definition of incremental change presented in the Introduction to this volume – as significant changes that adjust policy without challenging the overall terms of a given policy paradigm – we may speak of significant yet incremental change. Thus, a near consensus has been established between international organisations and the big industry players as represented by the Institute of International Finance (IIF), that regulators should be granted the necessary instruments and tools to resolve distressed financial institutions. However, the more ambitious goal of establishing cross-border resolution regimes – where, for example,

resolution funds are shared between different states and depositors and creditors and shareholders are treated equally and not discriminated against along national lines – is close to being reached only in the European case. Work on a banking union – which would include common resolution funding and a set of resolution tools – became a centrepiece of European Union (EU) crisis-management. The international policy elites – comprising both public and private actors – generally agree that an internationalised system is preferable but national authorities and financial industries, who would have to pay for such a regime, are reluctant to give up national sovereignty.

Though, as argued by Moschella and Tsingou in the introductory chapter, favourable conditions for large and punctuated types of changes in financial regulation were generally present following the crisis, cross-border resolution and internationalised resolution frameworks were two of the areas where an outcome of no change was a more realistic prospect than of big change. Since the aim of creating a cross-border resolution regime is to further financial integration, it naturally entails a loss of national sovereignty, something which, unsurprisingly, governments have been reluctant to support. The outcome of international regulatory efforts so far could serve to remind us of Germain's (2009) words that 'to date no financial crisis has ever been *resolved* at the international level' (680, emphasis in original); and it seems unlikely that this will change any time soon. Thus, though the idea of special bank resolution regimes is increasingly being implemented in national legislation, it remains to be seen if it will have a real impact on cross-border resolution.

To explain why the idea of special bank resolution regimes has been central to post-crisis debates, it is helpful to place it within the theoretical argument about the role of dynamic interaction between change-agents and veto-players presented in the introductory chapter. As noted by Moschella and Tsingou, change-agents generally lead the process of change as explicit advocates of specific changes or as hidden supporters; veto-players aim to maintain the status quo in order to preserve their privileges and safeguard their interests. In such a perspective, incremental change may easily constitute the most ambitious possible aim, a political victory in its own right. If we look for veto-players in relation to regulation on bank resolution, national authorities of countries with big financial industries, such as the American, British, Dutch or German, have been central to the process. The American authorities have opted out of anything more demanding than Memoranda of Understanding – i.e., bilateral agreements – because they see no interest in losing sovereignty by moving bank resolution to a truly global level. Following their participation in and support of the Euro, central players such as the Dutch and German authorities do feel an interest in moving important parts of bank resolution to the European level, to sever the bond between sovereigns and big lenders, but they are reluctant to support the all-out universal approach of the EU Commission, for fear of having to pick up the cheque for the resolution of southern European banks without getting a corresponding influence over their national economies.

On the other side, we find change-agents, most importantly the big financial institutions (as represented by the IIF) and international organisations like the Financial Stability Board (FSB), the Basel Committee on Banking Supervision

(BCBS), the International Monetary Fund (IMF), and the EU Commission. Though the two sets of actors share the argument that the solution to the problem of bank resolution is more financial integration rather than less, they do so for different reasons. The big financial institutions see a clear interest in upholding their pre-crisis freedom of manoeuvre, which enabled them to expand their business across borders. Though at this point it seems unrealistic to imagine a fully harmonised international system for bank resolution, it is in the interest of the IIF to support such efforts as an alternative to more structural reforms, for example the break-up of financial concerns. Or in the words of Moschella and Tsingou, the big financial players have realised that regulatory change is the only way to maintain their privileged position, and they are opting for an ambitious but not structural approach. On the other hand, arguing for further financial integration almost seems to be in the DNA of the international organisations and bureaucracies, not least for the ones which, following the implementation of an international approach, would enjoy greater influence on bank resolution, the EU Commission being a key example. The financial industry and international organisations have thus joined forces in trying to convince the national authorities of the necessity of moving resolution to an international level.

The aim of this chapter is to analyse the post-crisis debate on international integration and harmonisation of special bank resolution regimes, to determine if we are witnessing a significant shift in policies and ideas about how to resolve financial institutions – more specifically, whether regulatory debates and policy initiatives in the wake of the crisis have brought regulation closer to the universal or territorial model (*see* section 2 below) – and to offer a first, tentative explanation for these developments. The chapter is structured as follows. The next section presents the metric that will be used to determine the direction and magnitude of change introduced by new resolution policies, namely the two contrasting ideal-types of 'universality' and 'territoriality'. In the two subsequent sections, the global and European debates respectively are analysed to show how the idea of an internationalised resolution regime has gathered great support among international policy elites but still remains to be institutionalised. The fourth section explains why reform efforts are stalling and points to the reluctance of national authorities to give up sovereignty as a primary explanatory factor.

## How to measure change in special resolution regimes

How could one imagine that ideas and institutions in the area of bank resolution could change in the wake of the crisis? Or put differently, what are the parameters of realistic change? As argued by Kudrna (2012: 11), there are two principled ways of closing the regulatory gap between transnational banks and national resolution regimes, namely either to integrate the regime at an international level, which provides the largest possible jurisdiction to match the operations of international banking groups, or, alternatively, to shift resolution back to the national level, requiring cross-border banks to reorganise as a string of operationally independent national subsidiaries. Following this we can suggest three degrees and forms of

potential post-crisis change: full integration and harmonisation of bank resolution regimes, called a universal approach; an intermediate approach of integration and harmonisation, called a modified universal approach; and finally less integration, that is, shifting resolution to a national level, called a territorial approach (*see* Claessens *et al.* 2010; BCBS 2010: 17; Schoenmaker 2011). Naturally, in practice none of these models is currently found in its pure form, though financial regulation has, for the last twenty years or so, moved from a territorial approach towards a universalist approach, ending up with a modified universalist approach. Thus, the post-crisis setup could, in principle, move in any of the three directions.

To begin with the territorial approach, although few and far between, some have argued that the best response to the crisis would be to re-embed cross-border banks in national resolution regimes. Thus, for example, Pomerleano (2009) proposes 'that large, internationally active financial institutions – that are too big to fail or too interconnected to fail – should be reduced to holding companies of national operations that are organised as stand-alone units in the respective countries'. This would constitute a stand-alone subsidiary model, in which each subsidiary is also functionally independent, with the aim of making financial institutions less complex and more resolvable under local laws. From the perspective of the banks, this also has as an unfortunate consequence that the benefits from group structures in terms of cost-efficiency and economies of scale and scope are lost. On a more concrete level, the approach could, for example, mean that limitations were imposed on intra-group transactions, to prevent contagion and protect creditors of a given legal entity (Claessens *et al.* 2010: 87). Such a structure would reduce the risks to financial stability by creating domestic financial institutions subject to local jurisdictions in the respective markets; but it would also mostly give up on internationalisation and globalisation, posing a threat to further financial integration (Claessens *et al.* 2010: 91). This was generally the approach taken by the UK Financial Services Authority (FSA) at the onset of the post-crisis debate (FSA 2009; *see also* Kudrna 2012) as well as by the Warwick Commission (2009: ch. 8; *see also* Rodrik 2009). Interestingly, this approach to bank resolution has been more practised than preached, since few elite actors explicitly support its arguments. However, national authorities have, in the majority of cases, approached concrete instances of resolution from a territorial perspective.

As a contrast, we find the universal approach. Here cross-border banks are structured as branches in each country subject to a single common process for resolution, and all creditors of the same class, wherever located, are treated equally. The authorities would follow the so-called 'universality principle': 'This means that countries would recognise the extra-territorial effect of proceedings initiated abroad. Depositor preferences and ring-fencing assets would be ruled out' (Claessens *et al.* 2010: 85). The home-country supervisor organises the resolution and bears the costs, if not an agreement has been reached to pool resources and establish an international resolution fund to avoid the 'too big to save' problem. In all likelihood, it would also be necessary to create an international financial supervision authority, a lender of last-resort liquidity facility as well as an international deposit insurance and recapitalisation fund (Claessens *et al.* 2010:

# chapter nine | conclusions: too little, too slow?

*Manuela Moschella and Eleni Tsingou*

*'If there is a reproach to be made, it is that regulatory progress has not been faster.'*

Andreas Dombret, member of the Executive Board of the Deutsche Bundesbank, speech delivered at the Global Seminar Financial Regulation – Bridging Global Differences, Salzburg, 16 August 2012.

**Great expectations**

As some time has now passed since the onset of the global financial crisis, it is far from controversial to claim that a crisis originating in the small subprime mortgage market in the United States triggered the worst global downturn since the Great Depression. In an echo of the early stages of the 1930s crisis, the world witnessed an unusually sharp drop in asset prices and output, followed by the failure and near-failure of prominent financial institutions, all of which culminated in generalised financial distress (Eichengreen 2012). Analogies with the early stages of the Great Depression were largely made to justify unconventional monetary policy by central banks: in order to prevent a repeat of the 1930s cascade of financial failures, monetary authorities around the world acted decisively in pumping in liquidity. Next to monetary policy, however, the other policy area where the Great Depression analogy has been most often invoked is that of financial regulation. Similarly to the 1930s, when a regulatory clampdown on banking activity was adopted to restore confidence in the US financial sector, the crisis that started in 2007 raised expectations of a profound overhaul of the financial system and its global interconnectedness, that is, the factors that were understood to be at the heart of the crisis. Public mobilisation against the banks and the pronouncements of key leaders and regulators – which did not shy away from comparing the post-crisis environment to the 'Bretton Woods moment' that materialised as a reaction to the depression of the 1930s – were all signs that a quick and substantial (re) regulation of the global financial sector was on the agenda and about to take place.

However, this book offers a sober assessment of the way in which policy-makers exploited the window of opportunity provided by the crisis. Rather than being a decisive intervention to fix the problems exposed by the crisis, the post-crisis regulatory reform process has proceeded quite slowly and by way of marginal adjustments. If the conventional wisdom holds that turning points, such as an external shock, usually bring major intellectual reassessment and policy changes, the cases in this book in fact show that the 'external shock' of the crisis has not led to such a comprehensive overhaul. Rather than rapidly lurching forward on the heels of economic disruptions and popular discontent, the key feature of the regulatory reform has been its incremental, non-paradigm-changing dynamic.

While incremental change is neither wrong nor bad in principle, it is nonetheless problematic for the post-crisis regulatory agenda. The problem derives from the fact that, as political scientists know quite well, a window of opportunity does not stay open for long and – when it shuts down – it is difficult to restore the conditions favourable to change that were seemingly possible before. This is exactly the risk that is materialising as the centre of the crisis moves from the financial sector to the sovereign-debt market. As the overriding focus of policy-makers is shifting to Europe's financial turmoil and the impact it could have on the rest of the world, it has not been uncommon to hear calls to water down or delay regulatory reform. An excessive regulatory pressure, so the argument goes, could put at risk the global economic recovery, exactly at a time when the euro crisis is already impairing global growth prospects.

However, and in spite of the fact that the sovereign-debt crisis in Europe is a major source of risk to global stability, it would be dangerous to slow further the financial regulatory-reform process. To start with, the same sovereign-debt crisis, which is driven not least by systemic problems in some countries' banking systems, underscores the urgent need to make the financial system more resilient. Furthermore, the financial sector is still a major source of potential risk. For instance, many banks remain highly leveraged, including those that appear well capitalised (BIS 2012: 5) and the level of risk in the banks that were saved by public money is also growing (Brei and Gadanecz 2012). In short, the 'problems with banks' are far from having been solved (Rethel and Sinclair 2012). On top of that, there is also mounting evidence that innovative products are already being developed to circumvent some of the new regulations (IMF 2012). Last, but not least, the financial scandals of the last few years, from the fraud allegations on mortgage-backed securities to the mismanagement of the Libor-setting process, have not undermined but reinforced the case for speedier and more comprehensive regulation.

The chapters collected in this volume have investigated why 'the regulatory progress has not been faster', in the words of Andreas Dombret, member of the Executive Board of the Deutsche Bundesbank, in the epigraph to this concluding chapter. Specifically, we addressed the question of why the regulatory-reform process has been incremental although the conditions were in place for a more decisive and radical outcome. Indeed, as clarified in the Introduction to this volume, the crisis opened a window of opportunity for rapid and radical reform, by significantly changing the institutional context in which financial policy-making takes place: public mobilisation and the shift in the locus of the financial debate from technical to political bodies such as the G20 were all factors that would lead us to expect the kind of punctuated change that is associated with quick and profound policy changes.

In unveiling the factors that prevented a punctuated-type of change from occurring, we set out to make both empirical and theoretical contributions. At the empirical level, our study maps and assesses the changes that have taken place in a number of crucial areas of financial governance, including financial supervision (Baker), offshore financial centres and shadow banking (Rixen), accounting

(Botzem), banking governance infrastructure (Carstensen) and banking and derivatives regulation (Quaglia, Pagliari and Young), the rules that apply to hedge funds and credit-rating agencies in the European Union (EU) internal market (Quaglia) and those that govern mortgage-related markets and products (Kjar). While these case studies do not exhaust the regulatory-reform agenda, they cover important or contentious reforms that highlight activity at various levels of governance, provide a contrast between pre and post-crisis debates, and allow investigation of the role played by a wide range of actors, from those that operate in the private sector to those in the official community. Furthermore, they provide a comparison of the dynamics of change across governance levels and also in several areas that are important to the workings of global finance, while going beyond the usual banking/securities/insurance subsector analyses often employed when studying financial regulation (e.g. Singer 2007). By mapping what has changed in these sectors, we also provide a complementary analysis to those economic studies that have thus far investigated the progress that has been made in making markets and institutions more transparent, less complex, and less leveraged (e.g. IMF 2012).

Furthermore, the contributions collected in this book provide a theoretically informed analysis of the changes that have taken place thus far. In particular, we deliberately decided not to elaborate new concepts and theories. In contrast, we opted to build on the insights developed within the historical institutionalist literature, which has long focused on processes of incremental, path-dependent change, and to exploit this opportunity for fruitful cross-fertilisation by expanding those insights and combining them with those developed in international political economy (IPE) scholarship.

The resulting theoretical model suggested in this volume builds on recent versions of historical institutionalism (HI), in that it incorporates the importance of normative underpinning and, above all, redresses the balance between agents and institutions by taking a more agent-centred perspective that emphasises the microfoundations of political actors' preferences (e.g. Fioretos 2011: 373–6; Mahoney and Thelen 2010). Attention to these microfoundations is crucial to the processes of change examined in this book: as constraints and opportunities in the global financial institutional framework changed following the crisis, the calculations of political actors also adapted and evolved. The ways in which they evolved, however, and the way in which they were translated into operational practices, were both facilitated *and* constrained by previous developments in the multiple institutions that make up global financial governance. Temporality and sequence, institutional density, positions of power across actors and within networks, as well as knowledge patterns: these were all factors that mediated the impact of the exogenous shock of the crisis, diverting responses towards an incremental dynamic. In other words, echoing findings at the domestic level, where historically grown institutions largely mediate globalisation forces, explaining the lack of policy convergence,[1] in this study, the historically grown features of global

1. On the differences in national policy responses to external, common challenges *see*, among

financial governance mediated the impact of the crisis and explain the lack of profound overhaul in its aftermath.

Adopting this theoretical framework, as will be clarified below, all the chapters in this volume shed light on how incremental change is the result of the activity of change-actors and/or veto-players that operate within the constraints and possibilities defined by the institutional characteristics that global financial governance has acquired over time. They were crucial in tilting financial regulation towards a dynamic of incremental change because they shaped micro-level incentives for change-actors and veto-players to change (or reproduce) existing financial rules and institutions. It is also important to note that, as suggested in the Introduction to this volume, change-actors and veto-players did not necessarily perform different roles in the post-crisis regulatory reform process – sponsoring change and opposing it respectively. The empirical evidence is far more mixed, showing that the same set of political actors can act as both change-agents and veto-players.

In what follows, we review the key findings that can be extrapolated from the empirical chapters, assessing the extent to which they lend support to the theoretical propositions staked out in the Introduction. Subsequently, we move to speculate on the implications of the post-crisis reform process for global financial governance. In this section, we also engage with the observation that incrementalism is mainly instrumental and serves to preserve the status quo. Finally, we reflect on other challenges for the regulatory-reform agenda and suggest some themes for future research, especially in a comparative perspective.

## Summary of the findings and their implications

### *What change?*

One of the primary contributions of the chapters collected in this volume is that of identifying and mapping the dynamics of change and the types of change that have been adopted across a number of key financial sub-sectors. While all cases show evidence of some change and reform, the scope, pace and expected outcome of such reform all point to the significance of incrementalism in understanding the process.

To start with, in spite of the evident policy failures exposed by the crisis, and of the popular anger and political support for more wide-ranging reforms, the changes adopted thus far are mainly concentrated at the level of policy instruments and settings. In the immediate aftermath of the onset of the crisis, as evidenced by the pronouncements of the G20, there was a general focus on big policy areas, covering all facets of financial activity. As reform proposals materialised, the agenda was either rendered more modest or the tasks simplified. This is especially notable in Quaglia's analysis, as it provides a bird's-eye view of the changing

others, Berger and Dore (1996); Schmidt (2002); Soederberg *et al.* (2005).