Article:

Bell, S. and Hindmoor, A. (2017) Structural Power and the Politics of Bank Capital Regulation in the UK. Political Studies, 65 (1). pp. 103-121. ISSN 0032-3217

https://doi.org/10.1177/0032321716629479

Structural Power and the Politics of Bank Capital Regulation in the UK

Andrew Hindmoor (University of Sheffield)

Stephen Bell (University of Queensland)

Abstract

This paper describes and explains a significant tightening in bank capital regulation in the UK since the 2008 financial crisis. The banks fiercely resisted the new capital regulations but in a novel theoretical contribution we argue that the structural power of business was reduced due to the changing ideas of state leaders, by changing institutional arrangements within the state and by wider open politicisation of banking reform.

Introduction

This paper analyses the battle over bank capital regulation in the aftermath of the 2008 banking crisis in a core financial market; the UK. Bank capital is shareholder's equity, a bank's own reserves, as well as retained earnings. Banks with higher ratios of capital to total assets are more likely to be able to withstand significant losses. The banking industry has nevertheless traditionally opposed higher capital requirements, arguing that higher capital levels increase costs, depress lending and weaken profits. Capital regulation has however increasingly been tightened in the post-crisis era. We argue this substantially reflects changes in the structural power of banks and financial institutions as well as increased state capacity. Three factors matter here: the changing ideas of policy makers and their perception of structural power threats; enhanced state capacity, including bureaucratic capacity and insulation in key regulatory agencies, especially the Bank of England; and the wider 'noisy' politicisation (Culpepper, 2011) of banking reform.

We identify three phases of capital regulation in the UK. Prior to 2008 and over a long period there was a significant winding-down in capital levels in a major risk shift from the banks to the state (Haldane and Piergiorgio. 2009). Post-crisis, amidst intense bank lobbying, capital levels were increased, though in the view of some commentators, only moderately, through the Basel III negotiations and the subsequent implementation of these rules via the European Union's Capital

Requirements Directive IV. Subsequently, the Bank of England's Financial Policy Committee (FPC) working alongside the Prudential Regulatory Authority (PRA), has in its own words, taken a 'conservative and comprehensive view of capital adequacy' (FPC, 2013a, 5) and significantly *tightened* regulatory constraints to produce one of the world's toughest standards on capital adequacy, despite very substantial opposition from the UK financial industry. This paper seeks to highlight how and why such policy tightening has occurred, especially in terms of arguments about the structural power of business, and associated arguments about ideational change, state capacity and wider political change.

Our theoretical starting-point in explaining these policy changes is Lindblom's (1977) classic argument that 'privileged' business interests wield structural power by virtue of their control over key economic resources and the investment and credit processes on which governments and wider society depend. Structural power can help explain the government's caution about capital regulation in the immediate aftermath of the 2008 crisis. The banks, at that time, had some success in arguing that increasing capital levels would inevitably result in lower lending and that this would jeopardise the recovery. But how, in this case, can we account for the subsequent tightening in regulation? Our answer is found in rejecting the assumption that structural power is a material reality which arises automatically in capitalist societies. Against this, Bell (2012) has argued that ideas, particularly the ideas held by state leaders, condition and mediates structural power. We argue that structural power has been mediated and policy change facilitated through the way in which expert state elites developed and deployed ideas in key political contests, especially in challenging the banks' arguments about capital and lending.

Our paper also develops new theoretical insights about how structural power is shaped and mediated by first arguing that the changing institutional context of state policy makers strengthened their hand and second by arguing that the noisy politicisation of banking reform in the wake of the 2008 crisis also helped embolden policy makers.

The (variable) Structural Power of Business

Lindblom (1977) argued that governments and the wider society depend on a strong economy and hence in a capitalist economy on the willingness of business to invest and produce. Governments are therefore dependent upon business and financiers and typically have strong incentives to cater to their needs and demands.

This form of structural power is not automatic however. As we argue, agents, especially within the state, mediate the relationship. For example, not all sectors of business are necessarily privileged.

Some sectors may lack resources or be economically weak, or governments might perceive their growth as non-essential or even detrimental to overall economic growth. In the case at hand however, we argue that there is a strong *prima facie* case for arguing that the banking industry possesses a strong measure of structural power in the sense employed by Lindblom. First, banking and finance are a critical sector within the UK economy. On one estimate, banking and finance comprised 8.3 per cent of GDP prior to the 2008 crisis, employed 303,000 people in London, generated a £44bn trade surplus, attracted £40bn in foreign direct investment and accounted for twenty-five per cent of Corporation Tax revenue (CityUK, 2008). Second, banks and other financial institutions provide vital credit supplies to households and businesses. The varieties of capitalism literature (Hall and Soskice, 2001, 28; and Zysman, 1983, 63), argues that businesses in liberal market economies rely primarily on equity markets for finance, yet this is no longer true of the United Kingdom. In the early 2000s the bond and capital markets together provided around eighty per cent of funds for new business investment, but by 2006/7 bank lending had become far more central, providing eighty per cent of these funds: a remarkable shift (Pattani, and Vera, 2011, 319). Between 1997 and 2007 UK bank lending to non-financial companies grew at a rate of between ten and twenty per cent a year (Hardie and Maxfield, 2013, 59).

There have been a range of additions to and critiques of Lindblom's original arguments about structural power. Some have argued that structural power can be shaped and mediated by the economic cycle (Vogel 1989); whilst others argue it can be shaped by institutional dynamics (Hacker and Pierson 2002); divisions within the business sector between financial and coalitions of other business interests (Pagliari and Young, 2014; Helleiner and Thistlewaite, 2013); collective action problems (Woll, 2014) and the structural parameters of economies and exit options for capital (Culpepper and Reinke, 2014). On this reasoning, simple structural power accounts are often too mechanical and deterministic and cannot account for temporal and/or (as above) for sectoral variations in such power. There is a further key problem with Lindblom's account: it leaves too little room for agency. Bell (2012) argues that structural power arguments have largely overlooked the importance of the agency of government policy makers and their ideas and how they appraise and respond to structural power threats. In contrast to Lindblom (1977), and to Hacker and Pierson (2002, 277) and others, who argue that the structural power of business is generated 'independently and automatically' because of micro-decisions about lending or investment taken by business leaders,[1] we

[1]. Following the same line of argument, Dowding (1996, 71) describes business as being 'systematically lucky'. Similarly, Hall (1986, 274) sees business power as 'systemic' because 'structural incentives already apparent to politicians tend to discourage them from pursuing policies that might endanger investment, even in the absence of collective action on the part of capital'.

argue that power is not an objective condition but is shaped subjectively and inter-subjectively amidst changing relations between business and government which can be mediated by institutional factors and by wider political factors, as we show here.

Although Lindblom is well aware of business agency and lobbying power, his account tends to downplay interactions between agency and structure. Lindblom (1977, 190) argues either that 'privileged business controls are largely independent of the electoral controls of polyarchy', or that business interests can 'bend polyarchy to accommodate business controls.' Neither account is fully satisfactory. We argue for stronger connections between agency and structure. In our view, structural power is in part ideationally constructed (Bell 2012); an approach which recognizes that ideas, language and discourse provide crucial building blocks for establishing meaning and understanding and thus of purposeful action in politics and institutional life. What counts in the power equation is not just whether business lending or investment *is* essential for growth in particular cases, but also whether state actors *believe* this to be the case. One reason why the structural power of business varies is because government actor's normative and causal ideas about the value and determinants of business investment and credit flows vary.

Bell (2012) and Bell and Hindmoor (2014b) thus argue that the ideas held by state leaders and, in particular, the way in which they appraise and react to business investment or credit threats, can be important in shaping or mediating the structural power of business. Power then does not simply shape or dominate ideas, as Lukes (1974), Gaventa (1980) and Foucault (1979) all argue. It is also the case that ideas shape power. In this view, structural power must be 'actualised' through efforts by business leaders to convince policy-makers and perhaps the public more generally about the veracity of such power. In a democratic system, business leaders' arguments about the consequences of state regulation can be contested by interest-groups, rival business interests, the media or, as happened in this case of capital regulation, by academic and professional economists. Policy debates take place against the backdrop of constantly evolving arguments about the likely consequences of acting in particular ways and these arguments shape the structural power of business.

Because structural power is mediated by ideas, it follows that structural forms of power might be supported by instrumental forms of business power. As Offe and Wiesenthal (1980:86) have argued, business policy preferences and structural power might be 'exploited and fine-tuned' through overt business lobbying and communication directed at government. In this view, business power is thus a product of a relationship between business and government operating through structural and instrumental channels. This is not to suggest that we collapse the analytical distinction between the two forms of power but only to suggest that the two forms of power can often work together. We are therefore not, as Culpepper (2015: 396) charges, challenging 'the very utility of the distinction between structural power and instrumental power', but instead simply pointing out how the two can run together in the real world.

There are two further theoretical innovations in this paper. First, we draw upon state capacity literature and join this to structural power arguments by arguing that the institutional location and capacities of state policymakers are also important. The Bank of England's institutional resurgence is especially important; specifically the clarity of the FPC's mandate, its relative autonomy, and its administrative resources and knowledge capacities. Hence, ideas and state capacities are not separate explanatory factors: the Bank of England's institutional empowerment is reflective of post-crisis ideational change and lesson-learning that shaped and promoted institutional change. In this manner we show below how changing ideas *and* the changing institutional contexts of policy makers helped empower them in the face of structural power threats.

Second, Bell and Hindmoor (2014a) have recently explored how the role of voters and wider political contestation can impact on structural power dynamics, and this is also the case here. The 2008 crisis turned the previously insular world of bank regulation into a far more high-profile and contested arena. This shift from quiet to noisy politics in the world of banking regulation enhanced state capacity and helped empower the Bank. Indeed, the political legitimacy and clout of the banking industry was weakened by the way in which public debate about the role and value of banks was ignited by the 2008 crisis and then further inflamed by a succession of subsequent banking scandals. It is difficult to untangle the relative influences stemming from the ideational, institutional and structural power dynamics we explore from the wider impact of politicisation. We simply argue that changing ideas and structural power dynamics are highly salient, and that the impetus for reform was further supported by the noisy politicisation surrounding the banks, all of which helped further embolden and support policy makers. It is possible however to distinguish analytically between *ideas* which helped animate and embolden such actors on the one hand, and growing *incentives* for action on the other, which stemmed not only from ideas but also from the wider context of contestation; one which increasingly proved unfavourable to the banks. Ideas and incentives therefore ran together in this case. Ideas that proved enlightening and empowering for policymakers were spurred and supported by the changing political context. This suggests that Lindblom's (1977, 190) argument that 'privileged business controls are largely independent of the electoral controls of polyarchy', or that business interests can 'bend polyarchy to accommodate business controls', firstly, unrealistically segregates structural power dynamics from the wider context political context and, secondly, wrongly assumes that such contexts can simply be 'bent' to suit structural power imperatives.

The Dynamics of Capital Regulation

In the Nineteenth Century, banks in Britain routinely held capital equivalent to around 30% of total assets (Haldane, 2011a). Market investors required banks to hold this level of capital to support confidence and to ensure liquidity and solvency. Subsequently, average capital levels declined dramatically. The Independent Commission on Banking (2011, 128) reports that average capital levels of UK banks had fallen to 5.5% of total assets by the late 1970s and that prior to the 2008 crisis they had fallen to just 2.5% of total assets. This capital wind-down was facilitated by the state and by the Basel accords. The Basel Committee on Banking Supervision Bank (BCBS) finalised Basel I in 1988 in order to prevent an international regulatory race-to-the bottom and to guarantee minimal capital standards in an increasingly internationalized banking system. Yet, in practice, Basel I and its successor, Basel II, resulted in a *reduction* in average capital levels by setting minimal capital levels relative to 'risk-weighted' rather than total assets and by creating an additional regulatory category of tier 2 capital which included undisclosed reserves, revaluation reserves, hybrid (debt/capital) instruments and subordinated debt.

Bank executives also had a bonus-based incentive to wind down capital levels in order to improve their return-on-equity (RoE) by boosting returns and reducing equity. Investors accepted the winding down of capital due to the introduction of state-supported deposit insurance and lender of last resort functions and because they underestimated the extent of bank balance sheet exposures and dependence upon short-term wholesale funding prior to the 2008 crisis (Hindmoor and McConnell: 2013).

The crisis, which originated in the US subprime mortgage market, exposed the limitations of the Basel regulations. In 2008, the IMF estimated subprime loses at $500bn (Admati and Hellwig 2013, 60); only a small fraction of overall bank balance sheets (Bernanke, 2012). Yet these losses triggered a general financial crisis for two reasons: the losses led investors to question the value of other banking assets, and raised questions about the solvency of the largest banks. Suddenly, capital buffers mattered: investors knew that low capital levels meant small balance sheet losses could prove fatal. Panicked wholesale funding markets began to demand more collateral or higher interest payments to roll-over their loans. With costs suddenly rising and profits falling, banks had to repair their balance sheets by either raising additional capital or selling existing assets. This logic was played-out over several years as first Northern Rock and then Bear Stearns and, finally, Lehman Brothers failed. By the time the crisis had been contained in the UK through a Treasury-led recapitalisation, the Financial Services Authority (FSA) calculated total losses experienced by UK-based investment banks to be the equivalent of 160% of their capital (Barwell, 2013, 23).

Global capital account imbalances, the reengineering of balance sheets away from lending toward financial trading, insufficient liquidity and the fragilities of wholesale funding markets, inadequate risk-management, the frenetic search for yield in a low interest-rate environment, and a myriad of other factors also contributed to the onset of the crisis (see Friedman, 2009; Davies, 2010; FCIC, 2011, Bell and Hindmoor, 2015). Yet, in its immediate aftermath, low capital ratios were also cited by a number of regulators and politicians as a key cause. The Financial Stability Forum (2008, 12) criticised the 'significant weaknesses' in pre-crisis capital regulation. The UK Chancellor, Alistair Darling (2009), said 'it would have been better if the banks were holding more capital … when the crisis hit'. The influential Turner Review (Turner, 2009a, 7) concluded that 'the quantity and quality of overall capital in the global banking system should be increased'. The US Treasury Secretary, Timothy Geithner, concluded that: 'the top three things to get done are capital, capital, capital' (quoted, Howarth and Quaglia, 2013, 333).

The banking industry did not directly challenge such views. Instead, it argued that higher capital levels in the wake of the crisis would have the effect of reducing lending and prolonging the post-crisis recession. The Institute of International Finance (2010), an international bank lobby group, published a report purporting to show that a 2% increase in capital levels would reduce cumulative economic output by 3.1% in the Eurozone, the US and Japan by 2015 and destroy nine million jobs (Lall, 2012, 628). Similarly, the British Bankers Association commissioned PwC to produce a report assessing the likely impact of any additional capital regulations on the supply of credit (James, forthcoming, 15).The Chief Executive of the British Bankers Association (BBA), Angela Knight (2009), maintained that higher capital levels would 'reduce the ability to use new capital to support lending and that will be very important as we start to come out of recession'. A year later, Knight (2010a) argued that 'it is very easy to call for quick timetables' [to raise minimal capital levels] but that higher capital would 'dramatically impede' the 'ability of the industry to finance economic recovery'. Later that year, Knight (2010b) held that 'in crude terms, it is not possible both to hold more capital and to lend the same amount of money'.

Post-crisis debates about capital regulation were initially played-out in the context of international negotiations over Basel III. In September 2010 a draft agreement suggested raising core capital equity requirements from 2% of risk-weighted assets to 4.5% of such assets and tier 1 capital from 4% of risk-weighted assets to 6%, whilst also introducing a new mandatory capital conservation buffer of 2.5%, a discretionary counter-capital cyclical buffer of up to 2.5% and an overall leverage ratio of 3% of tier 1 capital relative to overall assets. There is a rich literature on the politics and regulatory significance of Basel III. Baker (2013) presents Basel III as one part of a more general and ambitious turn toward macroprudential financial regulation. Young (2012) points to the limited influence of financial interests upon the initial drafts of the Basel III agreement. The *Financial Times* columnist Martin Wolf (2010), on the other hand, described Basel III as the 'mouse that did not roar' (but see Wolf, 2014, 225-7 for a more nuanced account). Lall (2012, 609) shares Wolf's scepticism: arguing that Basel III 'falls far short of its creator's aims'. Howarth and Quaglia (2013, 335) argue that the initial drafts of the Basel III agreement constituted a significant step-change in regulatory standards but also point to the way in which implementation of Basel III was delayed until 2019 after intense lobbying by the financial industry.

The Bank of England, for its part, viewed Basel III as an improvement upon Basel II but as nevertheless inadequate. In October 2010 the Bank's then Governor, Mervyn King (2010), publicly identified a number of deficiencies in the draft agreement and warned that 'Basel III on its own will not prevent another crisis'. The Executive Director of Financial Stability at the Bank of England, Andy Haldane, subsequently told us that us that 'it was a pretty open secret that [in relation to minimal capital ratios] we'd have preferred a number that was well North of where we came in' (interview, 9th May 2013). This argument about capital regulation intensified in 2011 when the European Commission released a draft of the Capital Requirements Directive (CRD) IV giving effect to Basel III. Attention in the UK focused upon provisions within CRD IV which significantly weakened the terms of Basel III by allowing banks to count the capital assets of insurance firm subsidiaries toward their overall capital requirements; by rolling-back the commitment within Basel III to introduce an overall (that is non-risk weighted) leverage ratio; and, above all, by introducing 'maximum' capital buffers to sit alongside Basel III's minimal capital buffers (Howarth and Quaglia, 2013, 336-7). This final measure was defended as being necessary to ensure the effective maintenance of the single European market. The European Commission's position was driven primarily by the German and French governments whose banks would have been most adversely affected by the full implementation of Basel III. The BBA (2012) had however also sought to exert pressure particularly in relation to the introduction of maximum harmonisation provisions.

Garnering public support from the European Central Bank, the IMF and a plurality of European Finance Ministers, Bank of England officials publicly criticised the draft CRDIV agreement (Howarth and Quaglia, 2013, 340). On May the 2nd 2012 the UK rejected a compromise agreement which would have allowed member states to increase their capital buffers up to a specified threshold level. A deal was however eventually struck. The UK agreed to accept the provisions within CRD IV in relation to the counting of capital assets and the rolling-back of the commitment to introduce a European leverage ratio in return for an explicit agreement that no other country would challenge its decisions to raise the capital buffers of UK banks. In effect, the UK secured an opt-out from maximum harmonisation.

The Bank of England was prepared to fight hard on the issue of maximum harmonisation because, by this time, plans to overhaul the UK's own regulatory framework and strengthen the authority of the Bank of England were already well advanced. The key moment here came in 2011 with the publication of the White Paper *A New Approach to Financial Regulation: Building a Stronger System* in which the then Coalition Government confirmed that the FSA was to be abolished and replaced by two new bodies, the Financial Policy Committee (FPC) and the Prudential Regulation Authority (PRA), both to be located within the Bank of England. The FPC has broad oversight of financial stability and systemic risk (HM Treasury, 2011, 7). The PRA is the 'coal-face' regulator responsible for the supervision of over 1,700 financial firms. The FPC was established in a shadow form in February 2011 prior to its formal statutory establishment in April 2013 and now holds the legal authority to set the countercyclical capital buffer introduced through Basel III; to set sectoral capital requirements; make 'comply or explain' recommendations to the PRA; and make recommendations to the Treasury on the setting of the boundary between regulated and non-regulated financial activities (Tucker, Hall and Pattani, 2013, 195).

The FPC and PRA have used their authority to further tighten regulatory standards in relation to capital. In his 2015 Mansion House speech, the Governor of the Bank of England, Mark Carney (2015), told his audience that the 'age of irresponsibility is over' and pointed, amongst other things, to the way in which capital requirements have, in his words, been raised 'ten-fold' since the financial crisis. The FPC has pursued a regulatory agenda initially developed within the Financial Stability Board to require 'systemically important' global banks to hold an additional 3-5% of tier 1 capital relative to risk-weighted assets. Second, the FPC has used stress-testing to assess the adequacy of capital buffers. Significantly, these tests have been much more demanding than those employed by the European Banking Authority (Bank of England, 2014a, 60-4). Third, the FPC has directed the PRA to scrutinise the risk-weights used by the banks in calculating their overall capital buffers. In March 2013 UK banks were required to raise an additional £27bn in capital to compensate for deficiencies in risk-weights (FPC, 2013a, 3). Fourth, the FPC has introduced a leverage ratio for UK banks initially set at 3% of total non-risk-weighted assets (Bank of England, 2014b, 24). Finally, and in relation to concerns about consumer debt, the FPC has sought and been granted additional powers to directly limit mortgage lending (Bank of England, 2014a, 44-5).

As a result of these moves, the overall ratio of core tier 1 equity to risk-weighted assets has risen from 7% at the end of 2011 to over 11%. This is 2% higher than the internationally agreed benchmark for tier 1 capital within the Basel III agreement schedule to be fully implemented by 2019. The overall leverage ratio – measuring equity capital as a percentage of banks' reported assets on an unweighted basis – is double the level it was in 2007 prior to the start of the financial crisis (Bank of England, 2015, 34-5). Between 2008 and 2015 UK banks have raised nearly £100bn in additional capital and disposed of £1.4 trillion in non-core assets – most notably trading assets - which has also had the effect of raising capital as a proportion of total assets (Bank of England, 2014a, 17).

In late 2014 the banking industry renewed its campaign against bank regulation. The former Chairman of Barclays, Sir David Walker, argued that there is a 'compelling and urgent' need to review rules relating to the ring-fencing of investment and retail banking (Quinn, 2015). Standard Charter and HSBC have criticised the scope and scale of the bank levy on wholesale borrowing and, in doing so, have repeated their earlier threats to move abroad (Wright, 2015). The banks have had some successes. In his 2015 Mansion House address, Chancellor George Osborne (2015) signalled an end to 'bank bashing'. Since then, the Chancellor has cut the size of the bank levy (balancing this with an additional tax on bank profits) and effectively sacked the Chair of a third regulatory body, the Financial Conduct Authority (Fortado and Arnold, 2015). Significantly however the UK's comparatively stringent regulations on capital, leverage and risk-weighting have not been challenged and now appear to be a fixed part of the regulatory landscape.

How Ideas Mattered

The literature on state capacity focusses on the ability of a state to implement its policy agendas and emphasises bureaucratic expertise and state authority, as well as the nature of the state's relationship with key social or economic interlocutors (Bell and Hindmoor, 2009, 59-66; Evans, 1995; Cingolani, 2013; Savoia and Kunal, 2012). However the literature does not focus on the role of ideas in shaping state capacity and in this section we argue that state capacity and the ability of state elites to withstand structural power threats can be enhanced by the very ideas and basic conceptions that state elites formulate and utilise (Bell 2012).

In the pre-crisis period banks lobbied for and were awarded lower capital requirements. Since then, capital standards have been significantly tightened despite sustained opposition from the banks. We cannot easily explain this in terms of shifts in the banking sector's size or economic significance. Jobs have been lost in the City since 2008 but CityUK (2015) estimates that banking and finance and related professional services still employ 7% of the UK workforce and accounts for 12% of total output. Ministers remain unambiguously committed to the City as a global financial centre (Bell and Hindmoor, 2014c, 351). It is true that, in the immediate aftermath of the crisis, bond and equity markets became a more important source of finance for business investment relative to bank loans (Pattani, and Vera, 2011, 319). Yet a clear majority of business investment is still funded through bank loans (Farrant, Inkinen, Rutkowska, and Theodoridis, 2013). It is not the bank's changing role in the economy but the ideational and institutional environment in which banks operate that has weakened their structural power.

In the aftermath of the crisis the banks argued that raising capital would increase costs, cut lending and harm the economy. This argument acquired political traction because bank lending was viewed as being vital to economic recovery. The then Business Secretary, Lord Mandelson (2010), warned that: 'as the recovery strengthens, we must avoid banks shrinking their balance sheets to meet regulatory requirements at the expense of lending to the viable businesses that we need to drive the recovery'. Prior to the 2010 general election, George Osborne (2010) warned that regulators were showing 'too little consideration of the impact of higher capital and liquidity requirements on overall financial conditions and the pace of recovery'. Once in office, Osborne continued to express concern that excessive bank regulation could result in the 'stability of the graveyard' (Armistead, 2011). In a review of business lending the CBI (2012, 12) – which has generally been critical of the supply of lending to small and medium-sizes businesses – nevertheless endorsed the banking sector's arguments: maintaining that 'increases [in] the level of capital banks are required to hold, increase the costs to banks of lending to businesses'.

Since around 2011 however the banks' arguments about the relationship between capital and lending have been successfully challenged by officials within the Bank of England and by academic economists. Significantly, the banks describe capital as a *reserve* which must be set aside to cover potential future losses. Higher capital requirements, they argue, mean that more money must be set aside which means less money for loans. However, in November 2011 the FPC's Robert Jenkins (2011) described such arguments as being 'intellectually dishonest' and intended to exploit common 'misunderstanding and fear'. In contrast to the bank's arguments, Bank of England officials argue that capital is not a reserve but a source of funding, just like deposits or other forms of bank borrowing. In order to lend to business, banks must first raise money. They can do so this by collecting deposits, raising funds on capital markets or borrowing on wholesale funding markets. Banks can, all else being equal, actually *increase* the amount of funds they have available to lend by raising additional capital. Hence capital is not a 'reserve'. Its key importance is that it serves as a buffer if and when losses are incurred on the asset side of the balance sheet. As the PRA's Chief Executive, Andrew Bailey (2013) argues: 'Equity capital is not money that has to be stashed away for a rainy day and thus put to no good use. It is the shareholders' stake in the company …. Equity finances the provision of loans to households and companies, and those loans are the bank's assets'.

The banks however argue that equity is more expensive than debt. To raise capital banks must pay dividends and offer a return on equity. To get wholesale loans, banks must pay interest and reassure lenders they will not default. Banks argue that interest on wholesale funds is less than the cost of new capital and that - therefore - raising minimal capital requirements raises their overall costs: requiring them to charge higher interest rates on loans and so depressing lending.

Bank of England officials have responded by arguing that equity is only more expensive than debt because banks are perceived as being 'too big to fail'. When deciding what interest to charge on a loan, lenders factor in default or insolvency risk and demand an interest-rate premium if risk is high. The more likely a company is thought to default, the higher this premium. Yet banks partly escape this logic because lenders believe that banks will be bailed-out by the authorities in a crisis. Hence banks have pay a lower interest rate in order to borrow money than non-financial companies. Capital is not *inherently* more expensive than debt (all else being equal), but the cost of debt in a 'too big to fail' world has been artificially deflated by a hidden subsidy in the form of state support (Haldane, 2012). Nevertheless, using the Modigliani-Miller (1958) theorem, Bank of England economists and officials suggest that, in so far as equity is indeed relatively more expensive than debt, this is also because banks currently hold so little loss-absorbing capital. Low capital encourages equity investors to assume that relatively small losses will threaten their investment, leading to demands for higher returns for their investment (Haldane, 2010, Tucker, 2013). This reverses the causal logic of the bank's arguments about the relationship between capital and lending. It is low capital levels which jeopardise bank lending by weakening investor confidence, thus making it more expensive for banks to raise additional funds through either equity *or* wholesale funding markets. According to Mervyn King (2013)

> those who argue that requiring higher levels of capital will necessarily restrict lending are wrong. The reverse is true. It is insufficient capital that restricts lending. That is why some of our weaker banks are shrinking their balance sheets. Capital supports lending and provides resilience. And, without a resilient banking system, it will be difficult to sustain a recovery.

The Bank's arguments about the relationship between capital and lending have proven highly influential. They have been echoed and extended in a widely-reviewed book on bank regulation by the economists Anat Admati and Martin Hellwig (2013; also see Admati, 2013; and Wolf, 2013 and *the Economist*, 2013 for reviews). Since 2012 they have also been taken-up by Government Ministers, most notably the Conservative MP and Financial Secretary to the Treasury Mark Hoban (2012) and by the Parliamentary Commission on Banking (2013a, 191). On the other hand, in 2013 the Liberal Democrat Business Secretary Vince Cable publicly decried the 'capital Taliban' within the Bank of England (Parker, Goff and Rigby, 2013) whilst the media reaction to the introduction of the FPC's leverage ratio emphasised the possible knock-on effects on mortgage rates (Boyce, 2014; Titcomb, 2014). It is nevertheless the case that the balance of the debate about the relationship between capital and lending has significantly changed as a result of the Bank of England's intervention. Perhaps more tellingly the banks themselves – in their evidence to the Parliamentary Commission on Banking (British Bankers Association, 2012a; Barclays, 2012 and Lloyds Banking Group, 2012), in response to the requirement to raise an additional £27bn in capital in 2013 (BBA, 2013) and in response to the introduction of a leverage ratio (BBA, 2014) – have stopped arguing that raising capital requirements will reduce lending. The banks continue to argue that regulation must be calibrated in such a way as to ensure that lending remains profitable. They have stopped arguing however that lending is constrained by capital regulations.

The often highly technical debate about the relationship between capital and lending should also be seen within a broader ideational context. As historians of political thought (Skinner, 2002) and discursive institutionalists (Schmidt, 2008) have emphasised, ideas are connected: changes in one idea can lead to changes in other ideas. Prior to 2008, regulator's views about capital were complemented and reinforced by the conviction that financial markets were efficient; that rising asset prices reflected economic fundamentals; that banks could effectively manage risk; that credit rating agencies knew what they were doing; that securitisation and credit default swaps had distributed risk; and that banks would always be able to maintain solvency by selling assets and borrowing money in liquid funding markets (see Bell and Hindmoor, 2015).

The crisis repudiated all of these ideas. It produced a 'fairly complete train wreck of [the] predominant theory of economics and finance' (Turner, 2009b) and demanded a 'fundamental reconsideration of financial regulation' (Goodhart, 2010, 73). The Bank of England has, in this context, embraced not only much higher capital levels but a new macroprudential regulatory agenda which recognises the possibility of irrational exuberance, asset bubbles, systemic risk, poorly aligned incentive structures and unpredictable cascades of defaults and market failures (FPC, 2014; Tucker, Hall and Pattani, 2013; Kohn, 2013; Tucker, 2013; Baker 2013). Officials now operate explicitly on an assumption that it is neither possible nor desirable to eliminate entirely the possibility of a bank failing and that higher minimal capital requirements are needed to ensure that the costs of any subsequent failure do not fall on the taxpayer (Carney, 2013). This revised ideational context has been central in helping guide and empower policymakers and has provided incentives to face down the banks' opposition to higher capital requirements. Policymakers have arrived at a more critical reappraisal of the stability of financial markets and the competence of banks and asserted their own policy agenda. The initial attempts by the banks to exert structural power by threatening to reduce credit were weakened as policymakers revised their ideas.

The Institutional Mediation of Structural Power

In this section we continue our analysis of state capacity. In cases where cooperative relations with external or societal interests cannot easily be established or maintained, a degree of state insulation from such interests may be required in order to enhance state capacity. In other cases of conflict, overt confrontation with external interests may well reflect and enhance state capacity. Indeed, Emmenegger (2015) has shown how certain forms of state authority may be used to exert structural power over business interests by threatening their economic position. In this case however, we argue that bureaucratic insulation was important in enhancing state capacity and the ability of state elites to face down structural power threats.

In a classic expression of structural power, banks threatened that higher capital levels would jeopardise lending and harm the economy. This argument, as we have seen, was subsequently and effectively challenged by the Bank of England. Ideas alone cannot however fully explain this change. Institutions in the shape of rules and resources which both constrain and enable behaviour also matter (Bell 2011). If power is ideationally mediated then the marketplace of ideas is also institutionally mediated. Certain institutional venues privilege certain interests and, with those interests, certain ideas. As Ward (1987, 595) observed some time ago in relation to the City of London's then traditionally close relationship with the Bank of England, 'structural power may result from organisational structures within the state which are partially sustained through links with a certain industry'. But this can also work the other way. Structural power can also be challenged by organisational structures within the state due to the latter's institutional capacities. In the case of hostile relations with key social interlocutors, bureaucratic insulation can enhance state capacity.

As we have argued, a key moment in the development of post-crisis capital regulations came with the establishment of the FPC within the Bank of England in shadow form in 2011. In the immediate post-crisis period the Bank of England was constrained by the need to negotiate agreements with other central banks (in relation to the Basel III negotiations) and with members of the European Union (in relation to CRDIV) and draft proposals relating to maximum harmonisation. As we have seen, the Bank also had to contend with politicians who were, at least initially, persuaded by the banks' arguments that increasing capital requirements would result in less lending. Scott James (forthcoming, 13; and references therein) argues that the Bank, during this period, also encountered opposition from the UK Treasury which sympathised with arguments about maximum harmonisation. Yet the Bank of England was far from powerless in these struggles. Bank officials occupied influential international positions during the Basel III negotiations. Paul Tucker, a Deputy Governor, chaired the Basel Committee on Payment and Settlement Systems, whilst Lord Turner, the Chairman of the FSA, chaired the Financial Stability Board's Standing Committee on Supervisory and Regulatory Cooperation. During the dispute over CRDIV, Scott James (forthcoming, 19) argues that the Bank of England was able to hold the 'Treasury's feet to the fire' by publicly and steadfastly underlining its opposition to maximum harmonisation.

The Bank of England has also been helped by public interest in and hostility toward the banks. Prior to 2008 discussions about bank regulation were confined to a 'quiet' (Culpepper, 2011) world in which regulatory debates took place well beyond the public gaze in an environment in which the supposedly expert judgements, technical acumen and market efficiency of bankers were largely accepted by the authorities (Bell and Hindmoor, 2014b). During this period, the British banking system was lauded by politicians - most notably Gordon Brown in his 2007 Mansion House Speech (Brown, 2007) - as the engine of Britain's economic renaissance. The 2008 crisis changed everything. As *The Economist* (2009) observed: 'whilst economists continue to debate the ultimate causes of the collapse of the financial crisis … the public and most politicians, however, are clear: the blame lies with bankers, venal and incompetent in equal measure'. Once the Coalition was elected in 2010 the key question of whether to break-up the largest banks was handed to the technocratic Independent Commission on Banking (Bell and Hindmoor, 2014b). Over the next few years, the banks, including Barclays' Chief Executive, Bob Diamond, made periodic efforts to persuade the public that the 'time for banker remorse is over' (Wilson and Armistead, 2011). These efforts were compromised by the fact that, at this stage, bank lending was still contracting; by the ongoing reputational costs of inquiries into and compensation for the banks' miss-selling of Payment Protection Insurance; by HSBC's involvement in the laundering of drug money in Mexico; and, above all, by the LIBOR scandal which broke in May 2012 and shattered the banks' efforts to persuade the public and politicians that they had changed. One immediate result of the LIBOR scandal was the establishment of the Parliamentary Commission on Banking Standards which, through a series of reports, public hearings and interventions into policy debates (most notably into the 'electrification' of the ring-fence proposed by the Independent Commission on Banking) kept the banking industry in the headlines and on the defensive.

One consequence of the continued politicisation of banking was that technical debates about capital buffers and risk-weighting took place in a noisy environment in which the media and the public were predisposed to question the banks' honesty and competence. In Australia in 2010 the mining industry was able to derail proposals for a new profit tax by publicly arguing that new taxes would cut investment and employment. The mining industry was certainly helped by the fact that it could afford to saturate the airwaves with its advertisements. But it was also successful because the public had a generally favourable image of the industry as the guardians of Australia's prosperity and so believed their arguments (Bell and Hindmoor, 2014a). Following the financial crisis, the banks in Britain were not operating in nearly as favourable a political environment.

The establishment of the FPC was nevertheless an important moment because it enhanced the institutional authority of the very officials who were challenging the banks' arguments about the relationship between capital and lending. Three specific institutional attributes of the FPC have strengthened its position. First, the FPC has a relatively clear mandate: identifying, monitoring, reducing and removing sources of systemic risk, arising from 'structural features of financial markets', the 'distribution of risk within the financial sector' and 'unsustainable levels of leverage, debt or credit' (Tucker, Hall and Pattani, 2013, 193). This remit has been somewhat complicated by the Treasury's insistence that the FPC not act in ways that would 'have a significant adverse effect on the capacity of the financial sector to contribute to the growth of the UK economy' (Barwell, 2013, 87). This reflects Chancellor Osborne's above-noted concern about the financial 'stability of the graveyard'. Yet there is no evidence that the FPC views this requirement as an impediment, largely because it sees financial stability is an essential perquisite for growth (Haldane, 2011b, FPC, 2014, 6). In a demonstration of the importance not only of institutional rules but of ideas, the FPC has concluded that its mandate is an unambiguously simple one which provides it with a clear responsibility to challenge the interests of the banks if needed.

Second, The FPC has been granted a great deal of autonomy not only from the European Commission, but also from both the UK government and the banks. The government has confirmed that the FPC's 'members need to be, and be seen to be, independent of government and other influences' (FPC, 2013b, 3). As Haldane described it, the FPC is a 'technocratic [body] put at arm's length from the political process, which is a lesson we sort of learnt from monetary policy … it helps a lot if you can be at arm's length from the electorate, or from the political process more generally' (interview, 9th May 2013). The FPC is thus only obliged to explain to the Chancellor how its decisions promote medium and long-term economic growth (HM Treasury, 2011, 20). The Government has no institutional authority to question these explanations or veto policy proposals. Given the historically close relationship between the major parties and the City, this political autonomy is an important new source of institutional capacity. The FPC's autonomy is also reflected in the fact that it is not required to consult with the banking sector. The FPC includes a voting minority of four outside members: currently (as of September 2015) Clara Furse, the former Chief Executive of the London Stock Exchange; Donald Kohn, a Former Vice Chairman of the US Federal Reserve and Member of the Bank of England Board of Governors; Richard Sharp, a former Chairman of Goldman Sachs' European Principal Investments; and Martin Taylor, a former Chairman of the agro-chemical firm Syngenta AG and an advisor to Goldman Sachs. There is no evidence however that those external members have articulated the interests of UK banks in lobbying for lower capital. Indeed one of the former external members of the Committee, Robert Jenkins (2011), who, in his own words, was a 'former lobbyist for the investment industry', has, as we have seen, publicly denounced the banks' arguments about the impact of raising capital buffers on lending.

Finally, the Bank of England and its coal-face regulator, the PRA, has been given sufficient staff and resources to develop their own research capacity. Although senior regulators in the US have complained about a lack of resources and staff (Walter 2013), in the UK, by contrast, the Bank of England has benefited from significant investment; reflecting a new view that prior to the crisis the FSA and regulators had been starved of resources (Parliamentary Commission on Banking, 2013b, 25-8). The total number of staff increased from 1,900 in 2009 to 3,600 in 2014 (Bank of England, 2014c, 1). Prior to the crisis the Bank focussed on inflation (Irwin, 2013, 122), but it now employs seven economists who specialise in banking crises; nine who work on asset pricing; twenty on banking and financial investment; twenty-four on financial markets; six on financial stability policy; and six who work on risk management (Bank of England, 2014d).

On this basis the Bank has challenged the structural power of the banks, both though an ideational shift *and* through an enhancement of institutional authority and capacity. These are linked: the extension of the institutional authority of the Bank should be explained as the result of post-crisis lesson-learning by its officials, by ministers and by advisory bodies like the Turner Report (2009a) the Independent Commission on Banking (2011), and the Parliamentary Commission on Banking (2013a). First, the location of the FPC within the Bank of England has been informed by arguments that the pre-crisis 'tripartite' arrangements in which responsibility for financial regulation was shared between the FSA, The Treasury and the Bank of England were inadequate and resulted in a delayed and confused response to the Northern Rock Crisis (see Treasury Select Committee, 2010 for a summary). Second, the granting of a clear mandate to the FPC has been informed by arguments that the pre-crisis FSA was hamstrung by a requirement imposed upon it within the 2000 Financial

Services and Markets Act to seek financial stability whilst also 'maintaining market confidence' and the 'competitive position of the United Kingdom' in relation to finance (Financial Services and Markets Act, 2000). Finally, the FPC's institutional autonomy from government and industry lobbyists reflects a widespread view that the FSA had been too close to the industry it was regulating and that Downing Street and the Treasury had been too ready to intervene when the banks had complained about over-regulation (FSA, 2011, 29; Engelen et al. (2011, 10)

Conclusion

Scholars are slowly gaining a clearer understanding of the variables that shape the structural power of business interests. We have moved a large distance from early, purely structural accounts featuring the automatic nature of the power of business. A number of intervening structural and institutional variables have been added to accounts which now show how structural power might vary or change. More recently there have been accounts which explicitly highlight agency, especially the role of political leaders and how they use ideas to appraise and even re-assess structural power threats (Bell 2013; Bell and Hindmoor 2014b). There have also been accounts which bring in the electorate, showing how electoral perceptions about structural power and disinvestment threats can alter the calculations of political leaders and how they respond to business threats (Bell and Hindmoor, 2014a). This paper has extended this focus on agency, showing how the ideas of policy officials played a key role in defusing structural power threats made by banks in the UK about the costs and economic implications of higher bank capital levels. The paper also showed that arguments regarding state capacity and the institutional resources and insulation of key officials can be important in aiding officials in advancing and sustaining their ideas in confrontations with business interests.

Empirically this paper illustrates the significance of national policy arenas in financial regulation and the step-change in UK capital buffers following the establishment of the FPC. A number of commentators have argued that the post-crisis politics of bank reform has essentially failed (Mirowski, 2013; Wolf, 2014), with Helleiner (2014) referring to a 'status quo crisis.' Similarly, Johal, Moran and Williams (2012) argue 'the financial elite [in the UK] has been able to use its lobbying and financial muscle to shape [post-crisis] institutional arrangements and to elaborate a dominant regulatory ideology' (see Johal, Moran and Williams, 2014 for a more detailed elaboration). It is true that Basel III and CRD IV regulations have been widely criticised. Nonetheless in the UK, we have argued that significant reform has occurred and that the regulatory landscape now looks very different. This is not to suggest that the banking system is now safe or that regulatory reform has been sufficient. Indeed we have previously expressed concerns that regulators are in danger of 'winning battles but losing the war over bank reform' in as much as banks retain the incentive and capacity to try to evade regulatory rules through financial innovation and by transferring risk to the shadow banking sector (Bell and Hindmoor, 2014c). Yet it is clear that, as a result of changes in the ideational and institutional environment, significant changes in capital regulation have occurred since the 2008 crisis and that, within this arena, the structural power of the banks has been challenged. As Andy Haldane (2014) suggests, since 2008, the Bank of England's thinking in relation to regulation in general and on capital in particular has gone through an 'elegant 180 degree shift'.

References

Admati, Anat. 2013. 'We're All Still Hostages to the Big Banks', *New York Times*, August 25th.

Admati, Anat, DeMarzo Peter, Hellwig, Martin and Pfleiderer, Paul. 2011. Fallacies, Irrelevant Facts, and Myths in the Discussion of Capital Regulation: Why Bank Equity is Not Expensive'. Bonn: Max Planck Institute for Research on Collective Goods.

Admati, Anat and Hellwig, Martin. 2013. *The Bankers' New Clothes: What's Wrong with Banking and What to Do About It*. Princeton: Princeton University Press.

Armistead, Louise. 2011. 'George Osborne Rejects Financial Stability of the Graveyard'. *Daily Telegraph*, 15th November.

Bailey, Andrew. 2013. 'Capital and Lending', *Sunday Times*, 5th May.

Baker, Andrew. 2013. 'The New Political Economy of the Macroprudential Ideational Shift', *New Political Economy*, 18 (1), 112-39.

Bank of England. 2014a. *Financial Stability Review*, December. London: Bank of England.

Bank of England. 2014b. *The Financial Policy Committee's Review of the Leverage Ratio*. London: Bank of England.

Bank of England. 2014c. Annual Report. London: Bank of England.

Bank of England. 2014d. Economists by Field of Interest. http://www.bankofengland.co.uk/research/Pages/economists/interest.aspx. Last accessed December 2014.

Bank of England, 2015. *Financial Stability Review*. July. London: Bank of England.

Barclays. 2012. Banking Standards, Written Evidence.
http://www.publications.parliament.uk/pa/jt201314/jtselect/jtpcbs/27/27vi06.htm

Barwell, Richard. 2013. *Macroprudential Policy: Taming the Wild Gyrations of Credit Flows, Debt Stocks and Asset Prices*. Basingstoke: Palgrave Macmillan.

BBA. 2012. Banking Standards, Written Evidence.
http://www.publications.parliament.uk/pa/jt201314/jtselect/jtpcbs/27/27iv16.htm

BBA. 2013. 'BBA Response to Financial Policy Committee', Press Release, 27th March.
https://www.bba.org.uk/news/press-releases/bba-response-to-financial-policy-committee-statement/#.UxW_N_nV8vk.

BBA. 2014. 'A Response to the Financial Policy Committee's Review of the Leverage Ratio'. London: BBA.

Bell. Stephen. 2011. 'Do We Really Need a New Constructivist Institutionalism to Explain Institutional Change?' *British Journal of Political Science*, 41 (4), 883-906.

Bell, Stephen. 2012. 'The Power of Ideas: The Ideational Shaping of the Structural Power of Business'. *International Studies Quarterly* 56(4): 661-73.

Bell, Stephen and Hindmoor, Andrew. 2009. *Rethinking Governance*. Cambridge: Cambridge University Press.

Bell, Stephen and Hindmoor, Andrew. 2014a. 'Rethinking the Structural Power of Business: The Strange Case of the Australian Mining Tax' *New Political Economy*, 19: 470-86.

Bell, Stephen and Hindmoor, Andrew. 2014b. 'Taming the City? Ideas, Structural Power and the Evolution of British Banking Policy Amidst the Great Financial Meltdown. *New Political Economy*. Doi - 10.1080/13563467.2014.951426.

Bell, Stephen and Hindmoor, Andrew. 2014c. 'The Ideational Shaping of State Power and Capacity: Winning Battles but Losing the War Over Bank Reform in the UK and US, *Government and Opposition*, 49 (3) 342-68.

Bell, Stephen and Hindmoor, Andrew. 2015. *Masters of the Universe, Slaves of the Market*, Cambridge, Mass: Harvard University Press.

Bernanke, Ben. 2012. 'Some Reflections on the Crisis and the Policy Response'. *Speech at the Russell Sage Foundation and The Century Foundation Conference on Rethinking Finance*, New York, 13 April.

Boyce, Lee. 2014. 'Bank of England Warned Pushing Leverage Ratios too High Could Hike Mortgage Costs and Punish Building Societies', *This is Money*, 13th October.

Brown, Gordon. 2007. 'Mansion House Speech', 20th June. http://webarchive.nationalarchives.gov.uk/+/http:/www.hm-treasury.gov.uk/2014.htm

Carney, Mark. 2013. 'The UK at the Heart of a Renewed Globalisation'. Speech at an Event to Celebrate the 125th Anniversary of the *Financial Times*, 24th October.

Carney, Mark. 2015. 'Building Real Markets for the Good of the People'. Mansion House speech, June.

CBI [Confederation of British Industry]. 2012. *Financing for Growth: Refocused Finance for a Rebalanced Economy*. CBI.

Cingolani, Luciana. 2013. 'The State of State Capacity: a Review of Concepts, Evidence and Measures'. Maastricht Economic and Social Research Institute on Innovation and Technology, Working Paper, 053.

CityUK, The. 2008. *Economic Contribution of UK Financial Services 2008*. London: The CityUK.

CityUK, The. 2015. *Key Facts about UK Financial and Related Professional Services*. The City UK, March.

Culpepper, Pepper. 2011. *Quiet Politics and Business Power: Corporate Control in Europe and Japan*. Cambridge: Cambridge University Press.

Culpepper, Pepper and Reinke, Raphael. 2014. 'Structural Power and Bank Bailouts in the United Kingdom and the United States', Politics and Society, 42 (4), 427-54.

Culpepper, Pepper. 2015. 'Structural Power and Political Science in the Post-Crisis Era', *Business and Politics*, 17: 391-409.

Darling, Alastair. 2009. *Speech by the Chancellor of the Exchequer*. Mansion House, London, 17 June.

Davies, Howard. 2010. *The Financial Crisis: Who is to Blame?* Cambridge: Polity Press.

Dowding, Keith. 1996. *Power*. Buckingham: Open University Press.

Economist, The. 2013. 'Safety in Numbers', April 13th.

Economist, The. 2009. 'Rearranging the Towers of Gold', September 29th.

Emmenegger, P. 2015. 'The Long Arm of Justice: U.S. Structural Power and International Banking', *Business and Politics*, 17: 473-93.

Engelen, Ewald, Erturk, Ismail, Froud, Julie, Johal, Sukhdev, Leaver, Adam, Moran, Mick, Nilsson, Adriana and Williams, Karel. 2011. *After the Great Complacence: Financial Crisis and the Politics of Reform*. Oxford: Oxford University Press.

Evans, P. 1995, *Embedded Autonomy: States and Industrial Transformation*. Princeton: Princeton: University Press.

Farrant, Katie, Inkinen, Mika, Rutkowska, Magda and Theodoridis Konstantinos (2013). 'What can Company Data tell us About Financing and Investment Decisions?', Bank of England, Quarterly Bulletin, Q4.

FCIC [Financial Crisis Inquiry Commission]. 2011. *The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the Unites States.*

Financial Services and Markets Act. 2000.
http://www.legislation.gov.uk/ukpga/2000/8/pdfs/ukpga_20000008_en.pdf

FSF [Financial Stability Forum]. 2008. *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience*. Basel: FSF.

Foucault, Michel. 1979. *Discipline and Punish: The Birth of the Prison*. Harmondsworth: Penguin.

Fortado, Lindsay and Arnold, Martin. 2015. 'Martin Wheatley Knew the Score after Change in Mood Music'. *Financial Times*, July 17th 2015.

FPC [Financial Policy Committee]. 2013a. Record of the Interim Financial Policy Committee Meeting, 19th March. London: Bank of England.

FPC. 2013b. Financial Policy Committee Response to HM Treasury's 'Remit and Recommendations for the Financial Policy Committee', 26th June. http://www.bankofengland.co.uk/financialstability/Documents/fpc/letters/chancellorletter130626.pdf

FPC. 2014. The Financial Policy Committee's Powers to Supplement Capital Requirements: A Policy Statement. London: Bank of England.

Friedman, Jeffrey. 2009. 'A Crisis of Politics, Not Economics: Complexity, Ignorance and Policy Failure'. *Critical Review* 21(2-3): 127-83.

FSA. 2011. *The Failure of the Royal Bank of Scotland: Financial Services Authority Board Report*. London: FSA. Available at http://www.fsa.gov.uk/pubs/other/rbs.pdf

Gaventa, John. 1980. *Power and Powerless: Quiescence and Rebellion in an Appalachian Valley*. Clarendon Press, Oxford.

Goodhart, Charles. 2010. 'How Should we Regulate the Financial Sector?' In *The Future of Finance: LSE Report*. London: London School of Economics and Political Science: 153-76.

Haldane, Andrew and Alessandri, Piergiorgio. 2009. *Banking on the State*. Paper presented to the Federal Reserve Bank of Chicago Twelfth Annual International Banking Conference on 'The International Financial Crisis: Have the Rules of Finance Changed'. Chicago, 25 September. Available at http://www.bis.org/review/r091111e.pdf

Hacker, Jacob. and Pierson, Paul. 2002. 'Business Power and Social Policy: Employers and the Formation of the American Welfare State', *Politics and Society*, 30, 277-325.

Haldane, Andrew. 2010. 'The $100 Billion Question'. Speech to the Institute of Regulation and Risk, Hong Kong, 30 March.

Haldane, Andrew. 2011a. 'Control rights (and wrongs)'. Speech to the Wincott Annual Memorial Lecture, Westminster, London, 24 October.

Haldane, Andrew. 2011b. 'Our Brief is Simple, But Critical: Keep the System Strong and Stable', The Observer, 12th June.

Haldane, Andrew. 2012. 'On Being the Right Size'. The 2012 Beesley Lectures, Institute of Economic Affairs, 25 October.

Haldane, Andrew. 2014. 'Andrew Haldane in Conversation', Sheffield Political Economy Research Institute, University of Sheffield. 20th February.

Hall, Peter. 1986. *Governing the Economy: The Politics of State Intervention in Britain and France*. New York: Oxford University Press.

Hall, Peter and Soskice, David (eds.) (2001). 'An Introduction to Varieties of Capitalism', in Hall and Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press.

Hardie, Iain and Maxfield, Slyvia. 2013. 'Market-Based Banking as the Worst of all Worlds: Illustrations from the United States and United Kingdom', in Hardie, Iain and Howarth, David (eds.) (2013), *Market-Based Banking and the Financial Crisis*. Oxford: Oxford University Press.

Helleiner, Eric. 2014. *The Status Quo Crisis: Global Financial Governance after the 2008 Meltdown*, Oxford University Press, Oxford.

Helleiner, Eric and Thistlewaite, Jason (2013). 'Subprime Catalyst: Financial Regulatory Reform and the Strenthening of US Carbon Market Governance', *Regulation and Governance*, 7, 496-511.

Hindmoor, Andrew and McConnell, Alan. 2013. 'Why Didn't They See it Coming? Warning Signs, Acceptable Risks and the Global Financial Crisis'. *Political Studies*, 61 (3), 543-60.

HM Treasury. 2009. *Reforming Financial Markets* (Cm. 7667). London: TSO.

HM Treasury. 2011. *A New Approach to Financial Regulation: Building a Stronger System* (Cm. 8012). London: TSO.

Holban, Mark. 2012. 'Delivering Financial Reform and Economic Growth: The UK Perspective. Speech to the Cybrus Chamber of Commerce and Industry, May.

Howarth, David and Quaglia, Lucia. 2013. 'Banking on Stability: The Political Economy of New Capital Requirements in the European Union', European Integration35 (3), 333-46.

ICB [Independent Commission on Banking]. 2011. *Final Report: Recommendations.* London: ICB.

[IIF] Institute of International Finance. 2010. *Interim Report on the Cumulative Impact on the Global Economy of Proposed Changes in the Banking Regulatory Framework*. Washington D.C.: Institute of International Finance.

Irwin, Neil. 2013. The Alchemists: *Three Central Bankers and a World on Fire*. New York: Penguin.

James, Scott. Forthcoming. 'The Domestic Politics of Financial Regulation: Informal Ratification Games and the EU Capital Requirement Negotiations'. *New Political Economy*.

Jenkins, Robert. 2011. 'Lessons in Lobbying', Remarks at the third Gordon Midgley Memorial Debate, London, 22 November.

Johal, Sukhdev, Moran, Michael, and Williams, Karel. 2012. 'Post-Crisis Financial Regulation in Britain'. In Mayntz, Renate (ed.) *Crisis and Control: Institutional Change in Financial Market Regulation*. Frankfurt; New York: Campus Verlag: Chapter Three.

Johal, Sukhdev, Moran, Michael, and Williams, Karel. 2014. 'Power, Politics and the City of London after the Great Financial Crisis', Government and Opposition, 49 (03), 400-25.

King, Mervyn. 2010. 'Banking – from Bagehot to Basel, and back again'. Buttonwood Gathering, New York, 25 October 2010.

King, Mervyn. 2013. 'A Governor Looks Back – And Forward'. Lord Mayor's Banquet for Bankers and Merchants of the City of London, Mansion House, 19th June.

Knight, Angela. 2009. Speech to the Annual British Bankers Association Supervision Conference, 13th October.

Knight, Angela. 2010a. Speech on Capital Requirements and International Regulation', Paris, 13th September.

Knight, Angela. 2010b. 'A Knife-Edge Year', speech 4th January.

Kohn, Donald. 2013. 'The Interactions of Macroprudential and Monetary Policies: A View from the Bank of England's Financial Policy Committee', Speech to the Oxford Institute for Economic Policy, 6th November.

Lall, Ranjit. 2012. 'From failure to failure: the politics of international banking regulation'. *Review of International Political Economy* 19(4): 609-638.

Lindblom, Charles. 1977. *Politics and Markets: the world's political economic systems*. New York: Basic Books.

Lloyds Banking Group. 2012. Banking Standards, Written Evidence. http://www.publications.parliament.uk/pa/jt201314/jtselect/jtpcbs/27/27vi17.htm

Lukes, Stephen. 1974. *Power: A Radical View*. London: Macmillan.

Mandelson, Peter. 2010. Speech at the Trade and Industry Dinner, Guildhall London. 1st March.

Mirowski, Philip. 2013. *Never Let a Serious Crisis go to Waste*. Verso, London

Modigliani, Franco and Miller, Merton. 1958. 'The Cost of Capital, Corporation Finance and the Theory of Investment', *American Economic Review*, 48, 261-97.

Offe, Claus and Wiesenthal, Helmut. 1980. 'Two Logics of Collective Action: Theoretical Notes on Social Class and Organizational Form'. *Political Power and Social Theory*, 1, 67-115.

Osborne, George. 2010. Mais Lecture: A New Economic Model, 25th February 2010.

Osborne, George. 2015. Mansion House Speech, June.

Pagliari, Stefano and Young, Kevin (2014). 'Leveraged Interests: Financial Industry Power and the Role of Private Sector Coalitions', *Review of International Political Economy*, 21 (3), 576-610.

Parker, George, Goff, Sharlene and Rigby, Elizabeth. 2013. 'Vince Cable Attacks Bank of England's 'Capital Taliban'. *Financial Times*, 23rd July.

Parliamentary Commission on Banking Standards. 2013a. *Changing Banking for Good*. (HC 175-I, First Report of Session 2013-14) – Volume 1: Summary, and Conclusions and recommendations. London: TSO

Parliamentary Commission on Banking Standards. 2013b. *'An Accident Waiting to Happen': the failure of HBOS*. (HC 705, Fourth Report of Session 2012-13) – Volume I: Report, together with formal minutes. London: TSO.

Pattani, Aashish and Vera, Gieuppe (2011). 'Going Public: UK Companies Use of Capital Markets', *Bank of England Quarterly Bulletin*, Q4.

Quinn, James. 2015. 'Former Barclays Chairman: Bank Ring-Fence is Redundant and Should be Scrapped', *Daily Telegraph*, 2nd June.

Savoia, Antonio and Kunal, Sen. 2012. 'Measurement and Evolution of State Capacity: Exploring a Lesser Known Aspect of Governance', Effective States and Inclusive Development Working Paper 10. Manchester: University of Manchester.

Schmidt, Vivien. 2008. 'Discursive Institutionalism: The Explanatory Power of Ideas and Discourse'. *Annual Review of Political Science* 11(1): 303–26.

Skinner, Quentin. 2002. *Visions of Politics. Volume 1. On Method*. Cambridge: Cambridge University Press.

Titcomb, James. 2014. 'Mortgage Costs could Rise as Bank of England Introduces Tough Safety Nets for Banks'. *Daily Telegraph*, 30th October.

Treasury Select Committee. 2010. Financial Regulation: A Preliminary Consideration of the Government's Proposals', http://www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/430/43006.htm.

Tucker, Paul, Hall, Simon and Pattani, Aashish. 2013. 'Macroprudential Policy at the Bank of England', *Bank of England Quarterly Bulletin*, Q3, 192-200.

Tucker, Paul. 2013. 'Banking Reform and Macroprudential Regulation: Implications for Banks' Capital Structure and Credit Conditions', SUERF Bank of Finland Conference 'Banking After Regulatory Reform – Business as Usual?', 13th June.

Turner, Adair [Turner Review]. 2009a. *The Turner Review: A Regulatory Response to the Global Banking Crisis*. London: FSA. Available at http://www.fsa.gov.uk/pubs/other/turner_review.pdf.

Turner, Adair. 2009b. 'How to Tame Global Finance', *Prospect Magazine*, 27 August.

Vogel, David. 1989. *Fluctuating Fortunes: The Political Power of Business in America*. Basic Books, New York.

Walter, Elisse. 2013. *Wall Street Reform: Oversight of Financial Stability and Consumer and Investor Protections.* Testimony before the US Senate Committee on Banking, Housing, and Urban Affairs, 14 February.

Ward, Hugh. 1987. 'Structural Power – A Contradiction in Terms?', *Political Studies*, 35 (4), 593-610.

Wilson, H. and Armistead, L. 2011. 'Bob Diamond: Time for Banker Remorse is Over', *Daily Telegraph*, 12th January.

Wolf, Martin. 2010. 'Basel: The mouse that did not roar'. *Financial Times*, 14 September.

Wolf, Martin. 2013. 'Why Bankers are Intellectually Naked'. *Financial Times*,17th March.

Wolf, Martin. 2014. *The Shifts and the Shocks: What We've Learned - And Have Still to Learn from the Financial Crisis*. London: Allen Lane.

Woll. Cornelia. 2014. *The Power of Collective Inaction: Bank Bailouts in Comparison*. Ithaca, NY: Cornell University Press.

Wright, Ben. 2015. 'Has HSBC Already Decided to Leave the UK? *Daily Telegraph*, 10th June.

Young, Kevin. 2012. 'Transnational Regulatory Capture? An Empirical Examination of the Transnational Lobbying of the Basel Committee on Banking Supervision', *Review of International Political Economy*, 19 (4), 663-88.

Zysman, John. 1983. *Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change*. Ithaca: Cornell University Press.