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Old is New Again: National responses to the financial crisis

Adriana Nilsson

CRESC, The University of Manchester

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For further information: Centre for Research on Socio-Cultural Change (CRESC)
Faculty of Social Sciences, The Open University,
Walton Hall, Milton Keynes, MK7 6AA, UK
Tel: +44 (0)1908 654458 Fax: +44 (0)1908 654488

Email: cresc@manchester.ac.uk *or* cresc@open.ac.uk

Web: www.cresc.ac.uk

Old is New Again: National responses to the financial crisis

Adriana Nilsson
PhD candidate
University of Manchester

Address for correspondence:

Adriana Nilsson
ESRC PhD student
Centre for Research on Socio-Cultural Change (CRESC)
178 Waterloo Place
The University of Manchester
Oxford Road
Manchester M13 9PL

Email: adriana.vilella-nilsson@manchester.ac.uk

Abstract

This article reflects on the financial crisis and the responses of the three biggest European economies by looking at their management of the turmoil and subsequent proposals for a new regulatory framework in the first year after the fall of Lehman Brothers. It argues that, despite calls for an overhaul of the financial system, reform has achieved very little in the way of restructuring the sector because national concerns regarding the health of a profitable and strategic industry and the desire to protect or enhance its competiveness are common traits underlying government approaches in the UK, Germany and France, in spite institutional and ideological differences. The findings bring new elements to the academic discussion about similarity and diversity in varieties of capitalism, showing a different and clearly blurrier picture than previously suggested.

Keywords:

varieties of capitalism, financial crisis, regulation

Old is New Again: National responses to the financial crisis

Introduction

In the first year since the largest corporate bankruptcy in American history was filled by securities firm Lehman Brothers, trigging a systemic financial crisis, an increasing rhetoric overlap about the need to strictly regulate the financial industry has not resulted in proposals able to perform the kind of sector changing reorganisation achieved after the fall of American banks and stock market of 1929, arguably the only comparable financial crisis of modern capitalism. But while the starting point of this paper is an apparent paradox between discourse and performance, the failure of a major market crisis to act as a catalyst for a radical restructure of finance brings to the fore a yet more fundamental question: why 'social' Europe, and particularly the countries considered to favour a tamed kind of capitalism, have been shying away from key issues raised by the financial meltdown, many of them intrinsically political, rather than technical, in nature.

While research on how a process of 'regulatory closure' has been attempted in the UK corroborates the position of Great Britain as a elite-cohesive, market-led economy struggling to dodge political action that can damage its financial leadership (Froud, Moran et al., forthcoming), this account do not help us understand two relevant and interconnected issues. Firstly, why other important European countries like France and Germany have also been unwilling and/or unable to propose different solutions for regulatory reform; and secondly, how their reluctant position is likely to impact regulatory efforts at supranational level (e.g. European framework). In other words, the avoidance of radical interference by Anglo-American governments may confirm inbuilt ideological, cultural and institutional characteristics of a market-led system, but circumvention by governments like Germany, which claims to represent a social market economy where half of the retail banking system is state owned, is puzzling.

The argument put forward here is that consensus has been formed around peripheral issues because, for different reasons, radical restructuring can adversely impact national interests in the highly strategic and profitable financial industry not only in liberal Britain but also in France and Germany. Moreover, radical reform of the financial system would have to reverse the direction of travel for at least two intertwined drivers of the expansion of finance in the first place - competition and innovation - which are incidentally also at the core of the Lisbon Strategy, the European Commission's grand plan of the last decade. Therefore, the claim made here is that national interests towards the protection of local financial sectors, a goal shared by both financial and political elites, are actively shaping the responses to the crisis in more worldly ways than suggested by the moralisation of capitalism discourse of the past months. This, on the other hand, is not a new consensus but a reflexion of a process in which states not only deregulated their financial industry but were also actively championing national players in a search for competitive advantage in a strategic and lucrative global market.

Under this light, radical moves have been lacking because the transformation of the financial industry into a crucial source of national competitive advantage, a shift emulated and reinforced by the European Union in the building up of a regional 'financial block', is a common process to the three nations, despite their different institutional make-up. In the same line, many of the proposals have been met with resistance not because they signal a more robust reform of the financial system *per se* but because their impact on national institutional arrangements may be untimely or have the side-effect of tilting the playing field, enhancing or reducing the power of regional financial centres. Crisis can be used, therefore, as an opportunity for second tier players to gain a competitive edge.

The analysis of individual state responses to the crisis, on the other hand, is a useful exercise inasmuch as it provides a new outlet to reflect on contemporary capitalism and on the relevant relationship between similarity and diversity in its different models. If a thorough examination of the role of finance as the facilitator to the real economy is being avoided because of the negative impact of the findings and remedial action on national industries, turning the patching of existing rules into an unchallenged consensus, then the picture is much blurrier than the varieties of capitalism literature has been keen to advocate. This is even more interesting because the framing of the responses to the crises themselves as a minimum common denominator may undermine further the capacity of reproduction of distinctive traits, leading to an even blurrier scenario.

The first part of the paper looks at the evolution of government responses in the past year, contrasting the growing discursive consensus around strict regulation and some of the main collective proposals put forward. Section two reflects on the problems of re-regulation by looking back at the rationale and processes behind the drive to liberalise finance back in the 80s. The national processes in the UK, Germany and France will be discussed in section three, where a different picture of what has been at stake since Lehman Brothers went down is presented.

1. Lehman's failure and crisis management

The belief that the crisis was an American phenomenon is mirrored in the first European reactions to the bankruptcy of Lehman Brothers and Merrill Lynch's sale to the Bank of America in September 2008. Two days into the turmoil, Jean-Claude Juncker, chairman of the group of finance ministers from the eurozone, told German radio station Deutschlandfunk that Europe's financial system 'is more stable and we haven't made risky business deals in our financial markets to the same extent as was done in the US' (17th of September 2008). Addressing the lower house of the Parliament in Berlin, German finance minister Peer Steinbrück complained about the liberal market model having an 'exaggerated fixation on returns': 'In my view, it's the irresponsible overemphasis on the `laissez-faire' principle, namely giving market forces the most possible freedom from state regulation in the Anglo-American financial system' (Bloomberg, 25th of September 2008).

Chancellor Angela Merkel, caught with Steinbrück in the middle of the German election campaign by the crisis, joined in the criticism:

> It was said for a long time 'let the markets take care of themselves' and that there is 'no need for more transparency.' Today we are a step further because even America and Britain are saying 'Yes, we need more transparency, we need better standards for the ratings agencies
>
> (Deutsche Welle, 20th of September 2008).

French president Sarkozy also used a speech before the UN General Assembly to call for a 'regulated capitalism' in which financial activity is not left to the sole judgment of market operators (UN General Assembly, 23rd of September 2008).

By mid-October, it had become clear that Europe was more vulnerable to the crisis than anticipated. As a $ 700 billion rescue package was approved by the US Congress, €1,873 billion ($2,556 billion) was agreed for bank bail-outs in the eurozone alone, with France pledging €320 billion in state-guaranteed lending to banks, and Germany's rescue package including a state guarantee worth €480 billion. At this point, the UK was already moving to partly-nationalise three of its biggest banks – Royal Bank of Scotland (£20 billion), HBOS and Lloyds (£17 billion). Third-quarter GDP figures pointing at a recession in France, bleak

IMF forecasts on growth and rise in unemployment, on the other hand, were a painful reminder of the often hidden links between finance and the real economy.

The first sign that the scope and severity of the crisis required some kind of political 'mea culpa' came from a significant player. Addressing the US Congress on the 23rd of October, Alan Greenspan, the former Federal Reserve chairman, admitted founding 'a flaw' in his cherished ideology of self-regulating markets and to 'have been very distressed by that fact' (New York Times Online, 23rd of October 2008). On the other side of the Atlantic, prime minister Gordon Brown, who had already promised a stronger international regulatory regime and a crackdown on bonuses (Guardian, 22nd of September 2008), joined forces with French president Sarkozy in the running up for the G20 World Finance Summit in Washington. Amid evocative mentions to a new Bretton Woods, the pair spoke about 'overhauling the global financial system' (FT, 3rd of November 2008). Sarkozy's calls for the moralization of capitalism continued throughout the year, with Angela Merkel as the most regular ally. The priority of regulation over fiscal stimulus was also reinforced by the pair in many public occasions. 'The issue is not spending even more but to put in place a regulatory system to prevent the economic catastrophe that the world is experiencing from being repeated.' (Deutsche Welle, 18th of March 2009)

1.1 The British turnaround

But it was the release of Lord Adair Turner's review of the crisis, in March 2009, which brought an official tone to the narratives about far reaching re-regulation in the UK. The chairman of the Financial Services Authority (FSA) admitted regulatory failure that involved the body under his supervision, the Bank of England and the Treasury in a system of divided responsibilities and light touch regulation which was before 2007 praised for its contribution to the success of the City of London. In a striking reversal of established British hostility to supranational regulation[1], the Turner Review called for the creation of an independent European Regulator. 'Britain abandons light-touch regulation' was the Financial Times headline on the 19th of March, with Gordon Brown's office stating that the report would 'provide a blueprint' for wider reforms.

Although the process of building a regulatory framework for European regulation had already started with the release of a report by Jacques de Larosière in February, the Turner report was a moment of important confluence because it marked a discursive harmony about the demise of an Era of soft regulation and the beginning of an emerging consensus about the causes of the crisis and the direction the new regulation should take, with a substantial number of compatible/overlapping measures being proposed.

In the running up to the G20 Summit in London, in April, the bulk of the G20 regulatory consensus started to come together. Some of the key ideas can be traced back to their origins. Angela Merkel and Peer Steinbrück led the campaign for the regulation of hedge funds and private equity, a fight that is much posterior to the crisis – it started in 2005, when London-based hedge funds masterminded the dismissal of the bosses of the Deutsche Börse and were forever dubbed 'locusts.' Paris, while siding with Berlin on the regulation of hedge funds and private equity, took an aggressive stance regarding the crackdown on tax havens, also an old national grudge, and executive bonus. Capital and liquidity buffers for banks, the retention of 5% of the risk by the issuers of securities, the creation of a supranational regulator and the shifting of a great deal of over-the-counter trade in derivatives to regulated exchanges and clearing houses were championed by Larosière as well as Turner.

At the time of the G20 Summit in Pittsburgh, almost exactly a year after Lehman's collapse, the European/global agenda for the regulation of finance was a more detailed version of the London Summit plans described above, despite the impressive amount of technical reports and documents created in between meetings. As ratified in Pittsburgh, the new financial

regulatory framework is set to perform four main tasks: force banks to hold more capital against risky transactions; extend regulation and supervision to the 'casino' part of the financial sector, particularly the so-called shadow banking system; enhance the surveillance tools and regulatory power of existing authorities by creating a supranational supervisory entity and increasing information flows; and decouple risk and remuneration by eliminating links between short term performance and bonuses. Whilst these are undoubtedly important steps to mitigate risk taking and restore stability to and trust in the financial system, there is a range of issues central to the crisis that were very lightly touched or not at all.

The first one is the hitherto refusal to actively regulate financial products, despite their central contribution to the crisis, because it would 'stifle' innovation and distort the market. At the same time that the creation of clearing houses for over-the-counter credit-default swaps increases transparency and reduces counterparty risk, its premise of clearing 'simplified and standardised' OCT derivatives contracts, the vanilla flavour single-name and index CDSs, is less revolutionary if players continue to be free to create products that can be kept outside central clearing altogether, trading as customised bilateral CDSs. In its present format, the regulatory reform shows no attempt to establish parameters for what constitutes 'good' and 'bad' financial innovation or propose bans[2] or restrictions[3]. The relevance of this loophole is that the existence of a clearing house system would not have prevented, for instance, AIG's failure – the problem were not the vanilla derivatives but mortgage-backed securities and collateralized debt obligations that responded to $37.3 billion of collateral to its trading partners, with just $2.6 billion on single-name CDS on corporate bonds and European banks (The Wall Street Journal, 13th of January 2009).

Taming financial innovation through a combination of clearing houses and higher capital requirements is directly linked to two interconnected assumptions. One is that, despite the role that securitised credit intermediation played in the crisis, the 'future system for credit intermediation will and should involve a combination of traditional on-balance sheet mechanisms and securitisation' (Turner Review, 2009, p.43). The other is that the separation between commercial and investment banking, a feature of the 1930s regulation, would not be a feasible now and a proof of this is that narrow banks like Northern Rock can fail and investment banks can be systemically important. Thus the rationale that extending regulation to the casino is preferable to leaving it to its own fate when split from utility banking.

The combination of loosely regulated financial innovation and no fundamental change in the structure of banks, on the other hand, leaves another issue – the moral hazard of the 'too big or too interconnected to fail' – not only unresolved but virtually transferred from the political sphere, where it belongs even if only because bail outs are carried out with tax payer money, to the arena of so far untested technical solutions of 'colleges of supervisors' (Larosière report, p. 63) or 'living wills' (Commission Staff Working Document SEC 1407, 2009; FT, 3rd of September 2009; Turner Review Discussion Paper, October 2009). These issues are linked to yet another essentially political problem that has been raised but not addressed in any significant way: the relative size of the financial sector, particularly securitised credit activities, vis-à-vis the real economy[4]. Lord Turner clearly acknowledges that the growth of the financial sector in the last 15 years has increased the potential impact of financial system instability on the economy: 'wholesale financial services, and in particular that element devoted to securitised credit intermediation and the trading of securitised credit instruments, grew to a size unjustified by the value of its services to the real economy' (Ibiden, p. 49). This has not, however, been picked up by European politicians[5].

A final important point that has so far managed to escape deeper scrutiny is the extent to which finance has efficiently performed its role as a facilitator of the real economy – or putting it differently, there has been little debate on whether finance has been fulfilling its main task of matching people holding spare capital with those who need it for productive ends. This is interesting because this type of question has been historically central to

government inquiries into the financial sector in the 20th Century in the UK: the Macmillan Report (1931), the Radcliffe Committee (1959) and the Wilson Committee (1980) all mused about the links between financial institutions and the economy. The absence of further probing is even more of a puzzle because, judging by Turner's analysis of the unjustified size of the sector in comparison to the value of its services to the real economy, the answer to the question seems to be a negative one.

In sum, the 12 months after the failure of Lehman Brothers were market by two interesting and somewhat contradictory developments: the increasing rhetorical convergence about the need of a complete overhaul of existing national and global financial regulation was not matched by the framework proposed. Despite the 'moralisation of capitalism' story, the regulatory framework under global discussion does very little to turn back a process that transformed banks from 'intermediaries or servants of other actors such as non-financial corporations' to 'major capitalist actors in their own right' (Erturk and Solari 2007, p.386). The next section is a quick overview of the path of liberalisation of finance driven by states in the early 80s in the UK, Germany and France, a move that overlaps and entangles with the growing interconnectedness of the European financial landscape.

2. Rise and fall of the Depression regulation

The Banking Act of 1933, establishing the Federal Deposit Insurance Corporation (FDIC) and separating commercial and investment banking, and the Securities Exchange Act of 1934, creating the Securities and Exchange Commission, were not a result of international negotiation and coordination but a drastic attempt, by American president Franklin Roosevelt, to restore public confidence and trust in a broken national financial system. Nonetheless, many of the new rules were replicated in other countries during the following years: the separation of utility and investment bank, for instance, was enforced by law in France and Japan, while Britain introduced more restrictions on combining utility and investment banking activities. Germany maintained its universal banking system, but kept insurance, mortgage and building societies as separated entities and passed its first banking law in 1934, introducing licensing requirements and bank supervision. The aftermath of the II World War also saw the establishment of a further mechanism, the Bretton Woods System, to avoid one of the most pernicious problems of the Great Depression: currency depreciation and violent fluctuations in exchange rates that can disable trade.

The creation of the Euromarkets in London, sponsored by the British government, helped to undermine Bretton Woods by stimulating a rapid growth of private international financial movements and allowing speculative attacks on currencies (Helleiner 1995). The release of capital from restrictions related to exchange rates were followed, in the late 1970s and early 1980s, by the deliberate removal of the rules established in the 1930s to regulate the market and reduce individual and systemic risk by restraining competition and compartmentalising the financial sector. Here, again, the move starts in the United States: in 1975, the Securities and Exchange Commission (SEC) agreed to phase-out restrictions on price (minimum commissions) for brokerage on the New York Exchange, opening the world's biggest stock exchange to competition; in 1980, the Depository Institutions Deregulation and Monetary Control Act mandated the end of administered ceilings on interest rates. Both decisions knocked down barriers to entry, propelling banks to new markets and signalled the re-establishment of competition, which in turn would spur further financial innovation (Moran 1991).

In the United Kingdom, liberalisation of finance occurred in a shorter period: from 1983 to 1986, restrictions on price competition and on the sale of stock exchange firms to foreigners were lifted, as well as rules separating firms acting as principals in trading from those acting as brokers. With the opening of the market for new competitive interests, a long-lasting

British system of interlocked elites and self-regulation was gradually dismantled, with transformation of ownership and business practices (Moran 2006). Disintermediation of financial instruments (bonds, equity and commercial paper) increased in importance, as well as the organisation of securitised debt by banks – an off balance sheet activity unaffected by capital adequacy requirements. The direct results of disintermediation and securitisation were further competition pressure, a wave of financial innovation, growth of credit and debt and of risk (Leyshon and Thrift 1997, ch 7)

In France, the decision to start a restructure of the sector in 1984 and complete it within a couple of years was taken by a socialist government. While a desire to compete for a share of the emerging global market was a common point with the British and American liberalisation (Cerny 1989), the French reforms have been also spurred by the need to adapt to external changes, namely the problem of using Keynesian tools in a world of floating exchange rates and capital mobility, and the adaptation to an increasingly interdependent European market (Melitz 1990; Loriaux 1991). The Banking Act of 1984 removed the divisions between investment and commercial banks and released a uniform set of rules for all financial institutions. A few months later, the socialists revealed the plan to transform the French financial system into a decentralised market: financial instruments and markets were developed or extended, regulatory powers to promote transparency and protect investors were strengthened, commissions and fees deregulated and stamp duty abolished. According to Melitz, 'the whole program smacks of a close acquaintance with the principles of the theory of finance' (1990, p.397).

Germany is the most dissimilar case because its financial regulation was linked to licensing, supervision and capital requirements rather than a separation between investment and utility banking – even though insurance and mortgage lenders are separate legal entities. There was instead less focus on profit-maximisation, with most banks, except the larger ones, concentrating on retail deposit-taking and lending (Krahne and Schmidt 2004), and competition constrains due to self-enforced and explicit recognition of a 'regional principle' and concentration ratios that in fact distinguished between investment and retail. These two characteristics started to change in the early 1980s, with banks increasingly blurring the boundaries for insurance products, rising competition and undermining profit margins. At the same time, the historical disparity between a strong banking system and a fragmented stock exchange was corrected when the loss of business to other financial centres like London and Paris started to threaten national ambitions of a 'Finanzplatz Deutschland' (Moran 1989; 1992). Seven laws were passed to remove the barriers blocking the use of domestic capital market and the trade of new products, and a first revision of the German Stock Exchange Law in nearly a century created the legal framework for the German Futures Exchange in 1989, turning the state into a sponsor of the financial industry (Lutz 2000, p.163).

Despite different local institutional set ups, in which banks and stock markets displayed dissimilar levels of development and importance, there is a very clear and similar picture in the processes described above. The early 80s was the moment where governments in the UK, France and Germany actively intervened to disable long established mechanisms that hindered the competitiveness of national financial services industry. At the core of the changes is the legitimating and fostering of financial innovation – in form of instruments and even of entire new markets – and investor protection, whose interests are best served in a highly competitive environment. While their actions can be partly seen as a reaction to global and regional changes, such as the end of fixed exchange rates or the European Common Market, they were also clearly linked to the goal of promoting national financial centres.

2.1 Harmonisation and interconnection at EU level

The Single Market Programme, in 1992, had a strong commitment to further liberalisation of banking and financial services in Europe and was followed by measures aiming at a deeper

process of regulatory. In 1993, the first European Directives on Solvency Ratios and Capital Adequacy (Basle Accord) were being translated into national law. In 1998, investment firms stated to be supervised according to the same rules as credit institutions and the concept of trading book was introduced, allowing banks to use their own internal models to assess their risk position. Central to the process of integration was the stimulation of cross-border consolidation through mergers and acquisitions, a policy goal taken to a new level after the launch of the Lisbon Strategy, in 2000, with its aim of making the European Union (EU) the most competitive economy in the world by 2010. 'The structural improvements to the European economy that will result from a genuine single financial market will maximise both the direct and indirect contribution to long term growth, competitiveness and jobs' (Communication of the Commission, 1999).

This second stage of harmonisation involved the so-called Lamfalussy framework, which welcomed the involvement of the financial services industry in the making of European legislation drafted by national states and EU regulatory agencies. The process, however, has been far from a straightforward exercise precisely because of national interests (Macartney 2009). While a regulatory overlap that opens up and integrates markets, enhancing the safety of the system, is a 'unifying' goal, national priorities are about securing a regulatory background that does not erase the local differences that give countries their competitive edge. Proposals such as the creation of one European System of Supervisory Authorities (and European Financial Service Authority) were floated during the Lamfalussy process by some parts of the industry but opposed to by governments (UK and Germany) and their national supervisory authorities (FSA and BaFin) (Quaglia 2008).

By the turn of the millennium, the financial landscape looked very different. In France, stock market capitalization has grown dramatically, from 11% of GDP in 1975 to 100% of GDP in 2001 (O'Sullivan 2007, p.398). In contrast, the role of banks as intermediaries has shrunk considerably, with data from the early 80s to the mid-90s already showing a similar pattern to the United States and UK (Hackethal 2001, p.614) In Germany, the volume of business conducted by the banking sector has grown three times as fast as the country's aggregate economic output since 1960 (Bundesverband Deutsch Banken report, 2005). By the end of 2004, cross-border positions make up almost 40% of German commercial banks' assets, while accounting for over one-fifth of the balance sheet total of Landesbanken, mortgage banks and special purpose banks (Ibiden, Deutsche Bundesbank figures). On the other hand, because of domestic inspired competition and subsequent drops in earnings, the number of banks fell by 40% between 1999 and 2005 (Quaglia 2008). In the UK, consolidation has led to high concentration in the sector, with very few (national) providers of retail banking and a City dominated by foreign players highly specialised in securities. In 2009, the financial sector is 7.6% of GDP in the UK, 6% in Germany and 4.8% in France.

3. National interests and responses

A major debate among scholars of different disciplinary backgrounds in the past two decades has focused on the nature of capitalism and its many forms. Literatures on regionalisation and globalisation have more often than not worried about whether external forces, such as increasingly interconnected product and financial markets, were causing the convergence of these distinct capitalist models. Hyperglobalisation theorists (Ohmae 1990; Fukuyama 1992; O'Brien 1992; Ohmae 1996) have strongly advocated the inexorability of convergence – or, even more precisely, the inexorability of a market-led capitalism takeover of the more socially inclined models – while comparative research, particularly the work of (neo) institutionalists, have systematically pointed at institutional and cultural differences among national systems that result in divergent responses to common pressures (Hollingsworth and Boyer 1997; Hall and Soskice 2001; Amable 2003; Hay 2004; Morgan, Whitley et al. 2005). The argument of

this latter group is that national varieties of capitalism respond differently and, by doing so, perpetuate or even enhance dissimilarities.

Hall and Soskice (2001), authors of one of the most influential work on varieties of capitalism, have drawn a distinction between two types of political economy: liberal market economies and coordinated market economies. While the former coordinate their firm activities via competitive market arrangements, the latter relies more on inside networks and collaborative relationship; institutionally, highly developed stock markets indicates greater reliance on market modes of coordination. Regarding both criteria, the UK is firmly classified as a liberal market economy and Germany a coordinated market economy, with France as a third type – a state-led, post-agrarian model. The voices of social partners such as trade unions are more likely to be heard in coordinated economies, resulting in more resistance to, for instance, market deregulation, while liberal market economies will tend to oppose interference of both government and institutions in the operation of markets.

Therefore, when an external challenge (the need for stricter and streamlined regulatory framework for finance) is presented, each of the countries/types of capitalism involved should respond in different ways. More than that, given that state intervention on markets and the structure of the banking system is partly what makes these models distinct, strong disagreements about the essence and scope of the interference would be expected. Britain, as an example of the liberal market capitalism, should try to keep regulation to a minimum; Germany, the text book coordinated economy, should be involving different stakeholders to reverse the downward spiral towards permissive regulation; and France should be using the state to coordinate interests between industry and finance. Their responses, however, only partially support these ideas.

Britain

The debate about the financial sector, crisis and regulatory responses in Britain has gone through very different phases since 2007. It started, in fact, even before the subprime crisis when private equity bosses were summoned in the Summer 2007 by the House of Commons Treasury Select Committee and caught into a mediated scandal involving the use of tax loopholes for personal enrichment and tabloid headlines about 'new robber barons.' Despite a significant reputational damage, however, regulatory responses only amounted to adherence to a few voluntary codes proposed by the industry itself, in an interesting example of the ongoing commitment of New Labour to the City as key a source of competitive advantage (Montgomerie, Leaver et al. 2008).

With the run on Northern Rock, in September 2007, political momentum started to be regained, with the Treasury Select Committee probing the failures both of the mortgage lender and of the supervisory rules and coordination arrangements in place (Treasury Select Committee, January 2008). The nationalisation of the mortgage lender in February 2008, a decision taken with visible unwillingness by the government, further politicised the debate about authorities asleep at the wheel and questioned the appropriateness of the assumption that risk was being managed in a way that had hitherto justified soaring executive bonuses. After Lehman went under, in September 2008, the government ditched Treasury's rules on government borrowing to deliver a Keynesian response that included the nationalisation of RBS and Lloyds and interest rate cuts. From this point onwards, the terms of the regulatory debate were solidly back on the broader political domain for the first time since privatisation and the shift of economic management to a technocrat-dominated inner circle (Froud, Moran et al., forthcoming).

Under pressure of MPs, trade unionists and public opinion, Gordon Brown – at this point effusively celebrated by the international media for his decisive action to shore up the financial system – released a package of measures to that involved tighter international

controls of money markets and a crackdown on City bonuses. The latter become even more of a key subject at national level when Sir Fred Goodwin, ex-RBS boss, was allowed to leave with a £703,000 annual pension, in February 2009. As the public indignation grew, the Treasury Committee was busy conducting a series of hearings with bankers and government authorities about the crisis, including a whole inquiry on the City executive remuneration that would later conclude that 'bonus-driven remuneration structures encouraged reckless and excessive risk-taking and that the design of bonus schemes was not aligned with the interests of shareholders and the long-term sustainability of the banks' (9th Report, May 2009).

The release of the Turner report and the government turnaround regarding arms length regulation coincide, paradoxically, with the beginning of a second phase of the debate in which attempts to neutralise this growing politicisation of the management of the financial industry take place. The exercise is mainly centred at bringing the discussion back to a narrowly defined set of technical fixes despite the claims about an overhaul of the system. The Turner report is instrumental in this because its line of reasoning about what caused the crisis and how to manage the repair is practically reproduced in the Treasury white paper presented to the Parliament (July 2009), with arguments about how a new Glass-Steagall would negatively impact competitiveness taking almost a whole chapter while the more radical reflexions about the size and usefulness of present financial practices were completely brushed aside.

The narrowing of the regulatory framework was also reinforced by the publishing of the first independent inquiry commissioned by the Treasury. In May, Wyn Bischoff revealed his framework 'on which to base policy and initiatives to keep UK financial services competitive over the next 10 to 15 years' (2009, p.3) supported by a heavy-weight group of City insiders as signatories. The report strengthened the apparent new consensus around macroprudential regulation, disavowing any kind of government interference in the size or shape of the industry: 'this Report recommends that the financial sector be allowed to recalibrate its activities according to the sentiments and demands of the market' (Ibiden, p.31).

In a reference to Turner's comments on the size of the sector and the usefulness of financial innovation, the report argues that

> myths which have gained currency as the crisis has developed – that financial services occupy a disproportionate share of the UK economy, that financial services play little part in the 'real' economy beyond London, and that all financial innovation is of little economic or social value

– have to be rectified, hence the main goal of the inquiry (Ibiden, p.6). By the time the white paper was published in July, British politicians were feeling confident enough to deliver public attacks on the European regulatory framework, with Lord Myners telling private equity and hedge funds bosses that the EU directive on hedge funds needed 'major surgery' to avoid damaging the City (The Times, 8th of July 2009). Meanwhile, while ignoring criticism from the Treasury Select Committee about its 'enigmatic' nature (Seventh Report, May 2009), the UKFI, the board created to oversee the partially nationalised banks, kept the job of managing the government stake for 'shareholder value.'

The apparent closure of ranks around a less invasive technical framework, however, has encountered resistance. Despite the cold reply from the Bischoff group, Lord Turner reached larger audiences in August, when the FSA chairman reiterated his opinions about the size of the City and the worth of some of its activities to magazine Prospect (Issue 162). According to Turner, income securities, derivatives, trading and hedging, and possibly asset management and share trading had grown too big and, if higher capital requirements are not able to eliminate hyperactive behaviour and excessive profits, City-specific taxes (like a Tobin tax on transactions) may be necessary: 'If you want to stop excessive pay in a swollen financial

sector you have to reduce the size of that sector or apply special taxes to its pre-remuneration profit.'

Mervyn King, governor of the Bank of England, whilst never secretive about his doubts that higher capital requirements are enough a tool to deal with moral hazard and too big to fail dilemmas, infuriated political elites with a speech delivered in Edinburgh by (once again) bluntly advocating the separation of retail banking from utility. Referring to the present British situation – where there are only four banking groups, with two practically under state ownership and almost a trillion pounds of direct or guaranteed loans and equity investments – King said that 'never in the field of financial endeavour has so much money been owned by so few to so many. And, one might add, so far with little real reform' (20th of October 2009).

The defiant position of technocrats trusted with the supervision of the financial sector were matched by a similar noncompliant attitude by bankers fighting government attempts to control pay, reigniting public outrage. Goldman Sachs vice-chairman, Lord Griffiths, told the Guardian that the 'British public should tolerate the inequality as a way to achieve greater prosperity for all' (21st October 2009). Towards the end of the year, Turner's suggestion of a financial tax [6] won the endorsement of Sarkozy, Brown and Merkel, bringing more uncertainty to whether the regulatory closure politicians and financial elites hoped for has been secured.

Germany

Like the British, the German government had already felt the effects of the subprime crisis back in 2007, when Düsseldorf based IKB revealed heavy losses through exposure to the American market and was rescued by a government –backed consortia[7]. Within a week of Lehman filling for bankruptcy, three German banks admitted exposure to it – federal controlled KfW (which had taken over IKB), with more than € 500 million, and public banks Bayern LB and NRW Bank. At this point, the German government had two main messages to its soon-to-be voters: the crisis is the fault of Anglo-American capitalism and what is needed is regulation and transparency, not coordinated bailouts or economic stimulus. The leader of Merkel's Christian Democratic Party (CDU), Michael Meister, even suggested the American package was sowing the seeds of further trouble:'I have doubts whether that method is really the most clever one. It is important to think about measures such as banning speculation on falling shares rather than using taxpayers' money' (Deutsche Welle, 21st of September 2008)

A few days after criticizing the US bailout plan as 'too little, too late', Germany suffered its first casualty[8]: the country's biggest mortgage lender, Hypo Real State, had to be rescued on the 6th of October by a € 50 billion private loan from a group of banks guaranteed by the German government and, ultimately, by the tax payer. While warning that managers of financial institutions should be held accountable for 'irresponsible behaviour', Angela Merkel did what she considered unthinkable just a few days earlier and guaranteed all deposits. 'We tell all savings account holders that your deposits are safe. The federal government assures it' (BBC, 6th of October 2008). In a further reversal of what had been said so far, Finance Minister Peer Steinbrück and Bundesbank president Alex Weber declared that a systematic approach to bailouts was inevitable and, on the 17th of October, the SoFFIn (Financial Market Stabilisation Fund) was created to restore confidence in the market by issuance of guarantees, recapitalisation of financial institutions and assumption of risk positions. The package included a state guarantee of more than €400 billion to back banks' loans to each other and €80 billion to top up capital, which is not very different from the American counterpart (on its impact on taxpayers) if one considers that the German population is a quarter of the US's.

The idea of a systematic approach to bailouts instead of a case-by-case decision, on the other hand, was in line with the responses proposed by Deutsche Bank CEO Josef Ackerman, who in fact became Berlin's adviser on how to structure the burden sharing in the bank rescues.

Deutsch Bank would become the only large private bank that did not accept state support and is therefore able to assume the rescue role with its own capital. In the words of Hans-Joachim Dubel, a financial sector expert and World Bank adviser,

> 'Deutsche not only managed to successfully hedge herself through the crisis by selling or shorting toxic assets and buying protections from corporations, governments and insurers worldwide. She also maximize political bang for the buck by fear mongering the German finance ministry into a massive public bailout of the private deposit insurance system backed by them when Hypo Real Estate went belly up'
>
> (International Economy, Summer 2009, p.61).

In November, Merkel announced a €50 billion stimulus package aimed at helping the car industry, subsidising energy conservation and incentivising more lending to small and medium-sized companies via KfW, the state-owned bank. But when, in December, Sarkozy and Brown discussed the need for further stimulus packages, preferably coordinated throughout the EU, and the creation of bad bank schemes, German officials likened the Anglo-French inclination for deficit spending to 'lemmings jumping off a cliff' (FT, 9th of December 2008). Berlin believed a bad bank scheme was unnecessary because the SoFFin set up already allowed banks to deviate from the market-to market principle for structured assets with long-term holdings. Commenting on the £20bn fiscal package, including a £12.5bn cut in value added tax by Gordon Brown, Peer Steinbrück said that

> all it would do is raise Britain's debt to a level that will take a whole generation to work off. The same people who would never touch deficit spending are now tossing around billions. The switch from decades of supply-side politics all the way to crass Keynesianism is breath-taking
>
> (Newsweek, 6th of December 2008).

In January, Merkel announced a second stimulus package of a further €50 billion, making the German plan the highest in Europe at about 2.8% of GDP (British and French were both below 1.5 % of GDP).

Regarding regulation, the difference between saying and doing is also wider than it seems. The idea of transparency – for the shadow banking system, rating agencies, tax havens, between supervisory bodies – may be at the centre of Merkel's calls for regulation, but Berlin has been particularly secretive about the impact of the crisis on German banks and the failures of its own regulators. The Bundesbank, after a survey with all the country's top commercial banks and Landesbanken, estimated the toxic assets in those institutions as just under € 300 billion, of which only a quarter had been written off (Spiegel Online, 19th of January 2009). However, a leaked list from BaFin, involved in the same survey, showed another picture: toxic assets troubling Hypo, Commerzbank and the Landesbanken could amount to € 816 billion (Deutsche Welle, 25th of April 2009).

Despite pressure from the IMF and the Bank for International Settlements claiming that huge losses remain undisclosed, particularly in the eurozone, Peer Steinbrück has refused to stress test individual banks in Europe and, if tests take place, results should not become public. According to Steinbrück, the US tests were 'worthless', a view shared by the Andreas Schmitz, the president of the German banking association: 'In Europe we don't need stress tests like those in the US. Regulators and the banks themselves are carrying out their own examinations' (FT, 14th of May 2009). Regarding regulatory bodies, opacity has also prevailed. Unlike counterparts in the US and UK, BaFin has not published documents examining regulatory failures and the Bundesbank only recently released a detailed analysis

of the crisis as part of its Financial Stability Review, where only general considerations about regulatory failure are raised (November 2009)

Following the increasing evidence about the ticking bombs German banks seem to be holding, the government has moved to yet another provision that had been denied before, partly because of the fear of angering voters in an election year: the setting up of a bad bank scheme. As with the bailout, the imprints of Josef Ackerman on the draft are identified by the German media. According to the Spiegel, Ackermann has suggested the creation of a government institution that would buy risky securities from banks and hold onto them until they matured, which in practice would mean banks like Deutsche could shed liabilities without applying for government assistance through SoFFin (23rd of December 2008). In July 2009, the German parliament passed the law establishing the so-called bad bank: banks (or financial holdings) are allowed to establish a special purpose vehicle to transfer structured assets (ABS, CDO, CLO) acquired before January 2009 and, in exchange, receive securities of the SPV guaranteed by the German state.

The scheme is similar to the Geithner-Summers banking plan in the US but with much less impact on taxpayers: when the SPV is dissolved, shareholders will pocket the profits or bear the losses. While the idea is to remove bad holdings from balance sheets to kick-start the credit market, the scheme opens a national loophole because it allows banks to avoid additional short-run capital requirements linked to the downgrading of structured assets by the rating agencies, creating a de facto dodging of the Basle rules (Lehment 2009). A few weeks before the German Bundestag adopted the Bad Bank Act, in July, Gunter Verheugen, EU's Industry Commissioner, incensed political elites back home by saying that Germany 'was world champion in risky banking.' 'Nowhere in the world, not even in America, were banks so ready to take incalculable risks, especially the regional banks'(18th of May 2009).

Michael Sommer, chairman of the Confederation of German Trade Unions, also vented his frustration in an article for Magazine Mitbestimmung:

> Again and again we hear the same arguments from industry and policymakers that were used before the crisis: their hands are tied. They blame either the EU or the international community for not permitting regulation. The importance of remaining competitive is cited as the reason why regulation would endanger Germany's status as a financial centre and would only benefit London or Paris. With so many objections and so much relativising, one can't help wondering whether people seriously think the world could cope with another catastrophe of this nature
>
> (September 2009)

France

Of the three countries examined here, the most internally cohesive approach to managing the financial crisis and subsequent regulatory response comes from France: president Nicolas Sarkozy, economy minister Christine Largade and governor of the Banque de France Christian Noyer have been clearly singing from the same hymn sheet throughout the turmoil. The strategy is ingenious: on the one hand, systematic attacks on greedy amoral capitalism and symbolic acts are performed, such as the appointment of Jean-Pierre Jouyet (a former socialist and pro-European former chief of staff to Jacques Delors) to head the French watchdog AMF; on the other hand, a very public plan to expand Paris as a financial centre is revealed, based on the idea that France's little exposure to the crisis is itself a decisive proof of its superiority. Therefore, moral and regulated capitalism already exists and is French, making the harmonization of European regulation in a way that mirrors France's proposals a logical conclusion for Sarkozy. The strategy, in way, resonates with the president's own trajectory: from a commercial lawyer allegedly advising rich clients to make use of Switzerland's tax-friendly laws (The Times, 3rd of April 2009) to the crusader against tax

havens, or the candidate proposing capital controls (The American, 8th of March 2007) to the president whose one of the first acts was to cut tax on the wealthiest from 60% to 50% [9] while the UK has gone on the opposite direction.

Together with the fact that France has fared the crisis much better than the UK and Germany, being at 'the right place at the right time' was also crucial. When Lehman declared bankruptcy, France held the presidency of the European Union, overseeing the process of European regulation linked to the subprime crisis and appearing as the voice of the continent. In October, Sarkozy invited Gordon Brown to an emergency summit of eurozone countries in which Germany and France agreed to shore up the financial system with huge sums of money, showing a clear willingness to recapitalize and take equity stakes in national banks. Despite its little exposure, given that only Franco Belgian Dexia had needed intervention so far, France promised €320 billion in state-guaranteed lending to banks, and €40 billion for recapitalisation, a lending that included conditions over executive pay.

Addressing the French Senate, Lagarde framed the crisis as a result of excesses (mainly elsewhere): excess of speculation, credit in the US, complexity of the financial tools and excess of irrationality and panic in the stock exchange. She outlined that the government proposals of refinancing with state guarantee and the recapitalisation and bailout of Dexia were different from the US plans because France was not buying assets but plainly loan money to the banks (15th of October, 2008). Pierre de Lauzun, director general of Federation des Banques Françaises, and Arnaud the Bresson, chief executive of Paris Europlace, praised a universal business model, quality of regulation and diversification of activities as the main strengths of France. 'French banks were shaken, but less than others', said Lauzun (FT, 9th of December 2008). Even when the French government said it would inject a second €10.5bn of capital into the country's banks, Christian Noyer reiterated that French banks did 'not really' need the money and that the step was about anticipating potential problems and not addressing shortfalls (FT, 22nd of January 2009).

The apparent resilience of the financial system, however, was not completely replicated in the real economy, with recession and unemployment looming closer in France than in other European countries. On the 4th of December, Sarkozy joined the UK and Germany with a € 26 billion stimulus package, including a €1billion loan for carmakers and €5billion for new public sector investments. Apart from the stimulus plan, the government was also granting € 11.5 billion of credit and tax breaks in 2009 (BBC News, 4th of December 2008).

On the regulatory front, France was the first to act to impose restrictions on future bonuses to bankers, traders and fund managers. In February, a code drawn up by the French Banking Federation and Paris Europlace was made public and, while it is compulsory for banks operating in France, it is not for staff operating in other financial centres. According to Lagarde, France wanted to be the first one to turn proposals into practice because enthusiasm for re-regulation seemed to be slipping to the background (FT, 13th of February 2009). The culture of high bonus in London and New York has been historically used by finance lobby groups when arguing about the difficulties of attracting - and keeping - talent to France. The adoption of a common rule would bring bonuses down to acceptable levels for domestic voters and provide a more equal access to the talent pool. With the rules enforced in France but not in the rest of Europe (and US), however, Paris is at a competitive disadvantage, hence the strong tone on bonuses crackdown displayed throughout 2009.

Other priority issues for France in the G20, in partnership with Germany, were the regulation of hedge funds, private equity and tax havens. The latter is an old demand of the French government and said to cost about €15 billion a year in taxes through fraudulent use of havens by French taxpayers (The Times, 3rd of April 2009). The French proposal is based on a 'name and shame' system of sanctions against countries that do not disclose the names of their bank-account holders when requested – a black list of countries that shield tax evaders. Regarding

the hedge fund industry, the French idea is to impose higher capital requirements to reflect the riskiness of their hedge fund clients, which causes further trouble for banks struggling to raise capital.

The problem, claim British officials and City politicians, including Lord Myners, is that this would not be a problem for Paris, hosting 3% of hedge funds in Europe, but for London, where 80% of the firms are. Interestingly enough, Timothy Geithner's proposal to introduce tougher capital rules for banks and limits on the amount of money a bank can borrow relative to its capital cushion, which was endorsed by Alistair Darling, is being resisted by France – whose banks' balance sheets are, according to analysts, significantly more leveraged than EU peers, with three of the four biggest French banks - SocGen, Crédit Agricole and Natixis - turning to shareholders for capital. 'We need to have a good and sound explanation among ourselves concerning what Basel II is about. It has been significantly improved, amended over time…. And, as revised, I would have thought that addressed the issue', said Lagarde. Instead, France would like to see more action on bonuses (FT, 5th of September 2009).

Another issue France has been particularly vocal about – but this time mainly in Brussels – regards the European Commission and European Central Bank proposal of a CDS clearer based in Europe, a highly profitable market. The only clearer to offer CDS clearing in Europe is LCH Clearnet, based in London. Christine Lagarde has insisted that the solution should also apply to the eurozone, so that the European Central Bank would act as a lender of last resort. According to a confidential Banque de France report obtained by the Financial Times, the fact that LCH.Clearnet's decision-making structure is based in London could lead to 'an increase in the weight of the London financial market or the relocation of governance to the US, if the Paris financial markets do not recommend a solution'(FT, 19th of February 2009)

By mid-2009, the intention of using regulatory harmonisation to promote Paris as a financial was freely acknowledged by top politicians. For Lagarde, 'Paris is well-positioned to play a key role in what will be a rejuvenated and re-invigorated but certainly disciplined financial sector.' Patrick Devedjian, the minister in charge of the expansion of La Defense is more explicit: 'It is clear today that the City is in great difficulty and that is an opportunity for France to reinforce its financial attractiveness' (FT, 27th of July 2009).

Conclusion

The national responses to the crisis reviewed above can be summarised as follows: in the UK, a liberal market capitalism, the expected consensus among elites to maintain the status quo of the financial industry is not completely guaranteed, with proposals of sectoral restructuring being floated by senior technocrats; on the other end of the spectrum, in Germany, banks were deeply affected by the crisis and both remedial actions to address the crisis and the policies advocated to fix the system were very similar to the US's solutions, the paragon liberal market economy. Social partners, such as unions, were not as involved in the process while financiers were credited with two important policies involving tax payer money. In France, the relatively low impact of the crisis on the national financial system has given the government a window to advocate a moral capitalism that mirrors the French system.

These scenarios do partially endorse ideas put forward by the varieties of capitalism framework. There is, in the UK, a clear attempt to avoid a restructuring of the sector, while the French are obviously in a state-led strategy to enhance a key sector. Even the bad performance of German banks could be explained if one argues that the slower response to the deregulation of the financial sector, a reflection of institutional set ups, left national banks (particularly less savvy participants such as the Landesbanken), more vulnerable when playing a game without completely understanding the rules. The minimum common

denominator character of the joint proposals, therefore, may be seen as the result of ideological and institutional differences being forced through a consensus sieve.

This would, however, miss the main point brought up by the crisis, which is also, to some extent, lost in the attempts to place capitalisms inside discreetly labeled boxes[10]: while there is no doubt that capitalism in Western Europe has developed differently and, in the process, built distinct institutions, the common systemic structures shared by countries in the interconnected world of finance can shape the way they behave and affect the reproduction of their uniqueness. In a way, the responses to the current financial crisis highlight Susan Strange's warning about the dangers of not seeing the woods for the trees, and missing the common problems while concentrating on the differences (1997, p.184). This is even more relevant in the case of Europe, which shares both a deep financial/economic integration and common institutions.

National interests are at the core of the proposed responses and they vary in content – defending the competitive advantage in a leading industry, protecting a failing banking sector or gaining a big slice of the European/global market. These goals, however, are directly linked to a common root, which is the importance the finance industry has acquired in the past 30 years under sponsorship of the states, regardless of the variety. Operating under the assumption that lifting restrictions on competition is key to optimal market conditions, liberal Britain, social Germany and dirigiste France have taken the decision to remove four decade-old restrains on their national financial sector that has, in turn, become bigger, more powerful, more profitable and more interconnected. When the crisis hit, with different effects on domestic structures, protecting national players, and the common system in which they operate, is seen as desirable despite institutional differences. An overhaul of financial regulation, on the other hand, is in practice ruled out if the fierce competition that set markets in motion is not, at least to some extent, controlled.

Two interesting points derive from this. One is the effect of the responses in the future capacity of countries to reproduce their distinctness. The case in mind is Germany because both its institutional model of coordination and its political ideology of social democracy have been run over by the crisis management process. The need to shore up the banking system, and quickly, removed traditional partners and the appetite for radical reform from the picture; at the same time, the bad shape of the national banks has impaired their function of lending to the real economy, a situation not bound to get better until regulators conduct a costly triage of the banks. The spending spree that the government was forced into has prompted German lawmakers to change the constitution so that it will be illegal from 2016 to run a budget deficit over the economic cycle of more than 0.35% of GDP. Moreover, the competition commission for the European Union has warned Berlin that it will need to restructure its obsolete financial system: the three 'pillars', according to Commissioner Neelie Kroes, does not represent the role played by German business or meets the needs of Europe (The New York Times, 3rd of June 2009).

This leads to a second point related to the regulatory responses at EU level. With national states championing domestic sectors with different needs, the prognosis of a robust regulatory framework being built in Europe does not seem favourable. In this particular niche, France seems to be the best positioned to benefit from the solutions proposed in the first year after Lehman. The appointment of Frenchman Michel Barnier to the financial services regulation, a part of the internal market portfolio of the European Commission, has caused despair in the City of London, a reaction only partially placated by the choice of British Jonathan Faull as director-general.

The beginning of the battle in Brussels, however, brings to the discussion the idea of agency as a crucial, and fast moving, process. The picture painted in this paper is about the first year of the responses after the fall of Lehman. Elite breakdowns like the British, for instance, may

open space for more intervention and radical thinking, while the policy making at EU level may prove more remarkable if Germany's economy, and its banking system, recover more quickly than anticipated – even though this might mean complete deadlock instead. Besides, going back to the common factors rather than differences, the United States is still working on its framework which, in some ways, is more radical than the European one (i.e. consumer protection agency that, if fully functional, can bar harmful financial innovation such as the subprime mortgages), something that may bring other countries in line with it as Roosevelt's solutions to the 1930's banking crisis did.

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1 For a summary of the previous position, see (2004). After the EU Financial Services Action Plan: A new strategic approach. H. Treasury, F. S. Authority and B. o. England. London.

2 George Soros, speaking to bankers at the Institute of International Finance - many of them active participants in the CDS market – could not be clearer about his opinion: 'Some derivatives ought not to be allowed to be traded at all. I have in mind credit default swaps. The more I've heard about them, the more I've realised they're truly toxic. CDSs are instruments of destruction which ought to be outlawed' (2009). Ban CDS as 'instruments of destruction' Reuters. Beijing.

3 Some suggestions of how to do it have included pre-approval requirements, with products being tested to the regulator's satisfaction in the same manner that pharmaceutical products – see Buiter, W. H. (2009). The Crisis and Beyond. Lessons from the Global Financial Crisis for Regulators and Supervisors. H. Klodt and H. Lehment, Kiel Institute for the World Economy.

4 This and other important political questions were raised by academics and practitioners in reports published towards the end of the year. See Caulkin, S., P. Folkman, et al. (2009). An Alternative Report on UK Banking Reform. Manchester, Centre for Research on Socio -Cultural Change. and Commission, T.W. (2009). The Warwick Commission on International Financial Reform: In Praise of Unlevel Playing Fields. Warwick.

5 It was however addressed by the US president, who said in May that 'Wall Street will remain a big, important part of our economy, just as it was in the '70s and the '80s. It just won't be half of our economy' Leonhardt, D. (2009). After the Great Recession The New York Times.

6 This kind of tax would be only effective if introduced in all financial centres and the US are not backing it. Montgomerie suggests an alternative approach in which a transaction tax on financial products such as over-the-counter derivatives or stocks purchases akin to the sales tax or VAT paid by households. In Montgomerie, J. (2009) 'A bailout for working families?' Renewal 117(3): 22-31.

7 IKB needed an initial $5 billion injection to cover losses on subprime holdings, with a further $3 billion of government money in 2008. Sachsen LB (Saxony State Bank) and BayernLB (Bavaria State Bank) were also affected by the subprime.

8 Commerzbank, the country's second biggest lender, would be rescued in November and, by January 2009, after a second injection of capital, the government acquired a 25% stake in the bank.

9 During the crisis, controversy around the cuts have grown but the president has refused to reverse it and gone even further by improving the tax treatment of expatriate French or foreign employees posted to France. In

10 For a comprehensive discussion of these shortcomings see Crouch, C. (2005) 'Models of Capitalism.' New Political Economy 10(4): 439-456.

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