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Partners in advocacy for financial reforms: After the financial crisis, MEPs and civil society groups countered financial lobby efforts to stymie re-regulation

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Partners in advocacy for financial reforms: After the financial crisis, MEPs and civil society groups countered financial lobby efforts to stymie re-regulation

Lisa Kastner

Financial reforms in response to the 2008 crisis were subject to intense lobbying. Many believe that financial industry groups entirely 'captured' this regulatory process and tilted legislation towards their preferences. Drawing on her winning thesis at the 2016 PADEMIA Research Awards, Lisa Kastner shows that in the aftermath of the crisis, when the public paid attention to the financial reforms, members of the European Parliament (MEPs) worked closely together with civil society groups to bring about reforms despite the opposition of the financial industry.

Political scientists studying post-crisis reforms in the EU observed little change due to financial industry lobbying aimed at blocking reforms. However, my analysis of EU-level financial reforms suggests that private sector lobbying did not always result in outright regulatory capture. Even if the financial industry was successful in weakening the regulatory standards during later stages of the policy debate, its initial attempts to block legislative actions in the early phases of the debate clearly failed. The findings suggest that MEPs were sympathetic to the preferences put forward by consumer groups, and they significantly amended the main directives according to these groups' demands when the public paid attention to the reform process.

Relations after the crisis had come under stress, marked by MEPs' reservation and even mistrust vis-à-vis industry groups

In the immediate aftermath of the financial crisis, the financial sector's overall political influence was temporarily reduced. The crisis had drastically changed the lobbying environment in which financial industry groups had to operate. Previously cozy relations among policy-makers and financial sector groups had come under stress, marked by MEPs' reservation and even mistrust vis-à-vis industry groups. In the perception of many policy-makers, industry groups were the culprits for the crisis. Anecdotal evidence from interviews in Brussels between 2011 and 2013 indicates divisions between decision-makers and financial sector groups, with Commission officials and MEPs giving industry lobbyists 'a very tough time'. Communication levels seemed to have dropped significantly with industry groups reporting that they found it often difficult to get appointments with MEPs.

While financial industry groups faced a difficult post-regulatory environment to promote their demands, MEPs became important advocates for civil society groups, such as consumer associations, trade unions and NGOs. Regulatory decisions moved from technocratic committees to the top of the legislative agenda of the EP with new access points for non-financial interest groups. When asked about lobbying the European Parliament (EP), interviewees from civil society reported that they had much easier access to the Parliament after the financial crisis than did financial industry groups.

MEPs and civil society groups established close working relations to bring about financial reform. In June 2010, for instance, 22 MEPs from five out of seven political parties signed a petition for the creation of a new NGO dubbed 'Finance Watch' as a counter-lobby to the financial industry, which has since served as an important organizational platform for various civil society organizations to get involved into the reform debate. Another example is the creation of the pro-reform coalition 'Europeans for Financial Reform' by the Group of the Progressive Alliance of Socialists and Democrats in the European Parliament (S&D) and the Green party, which brought together advocacy groups and MEPs in favor of a financial transaction tax (FTT).

The role of parliamentarians proved to be instrumental in achieving consumer-friendly reforms

Because the rapporteurs steer legislative proposals through the EP's Committee on Economic and Monetary Affairs (ECON) and the plenary vote, their role proved to be instrumental in achieving consumer-friendly reforms. One example is the work of rapporteur MEP Anni Podimata (S&D), who prepared a report for the S&D group favoring the introduction of an EU-wide tax on financial transactions. Another example is the role of rapporteur MEP Pervenche Bères (S&D), who pushed through stricter regulations of retail investment products adopting all of the recommendations introduced by Finance Watch. With respect to the reform of mortgage credit regulations, the rapporteur MEP Sánchez Presedo (S&D) prevented a watering-down of the Commission proposal, in line with consumer groups' preferences.

Political receptivity towards pro-reform demands can be explained in light of increased issue salience and public pressure in favor of reform

Increased political receptivity of decision-makers to the concerns and demands of consumer groups can be explained in the light of heightened issue salience and public opinion trends, which were clearly favorable to regulatory reform. According to a Eurobarometer survey by the EP conducted in August and September 2010, a clear majority of Europeans (70%) supported stricter financial regulations. To illustrate the increase in public attention, Figure 1 graphs the use of the term 'financial consumer protection' in the press.

The FTT also became a high-profile issue in regulatory reform debates. As Figure 2 shows, the increase in media coverage is clearly visible in France, Germany and the UK. The FTT received substantial media attention, even in the UK, a country that opted out of the coalition of 11 member states proceeding with the introduction of a FTT. In a Eurobarometer poll from 2011, a staggering 81% of the respondents supported the idea of introducing a financial transaction tax in the EU. When legislative debate moved to the policy formulation stage in 2013 and 2014, public attention slowly faded away, with the FTT making the headlines less and less often. Shortly after the Commission had presented a second draft Directive for enhanced cooperation in February 2013, negotiations moved from broad democratic debate to the Commission's indirect taxation working party which opened up new possibilities for exemption, delay and modification beneficial to industry interests.

Figure 1. Number of articles mentioning 'Consumer Financial Protection' in the Financial Times and the Wall Street Journal (*Source*: Factiva)

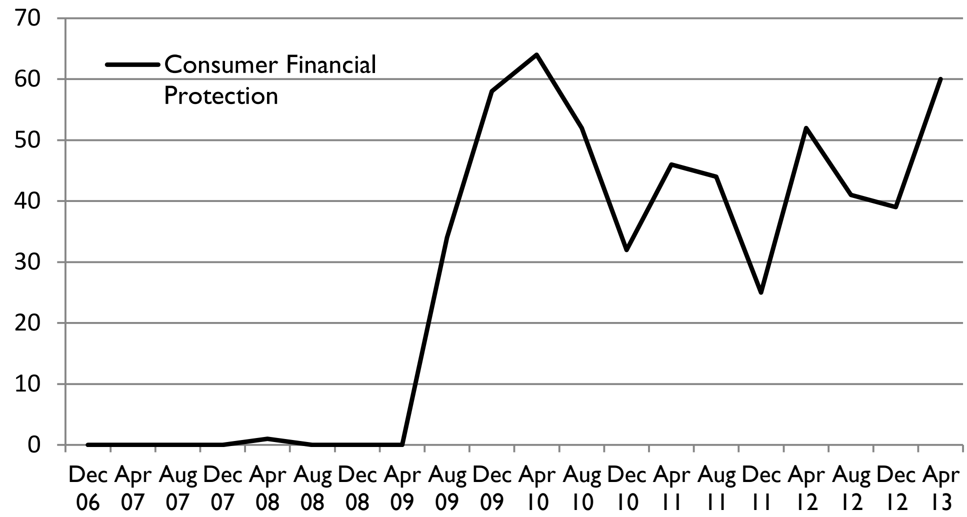
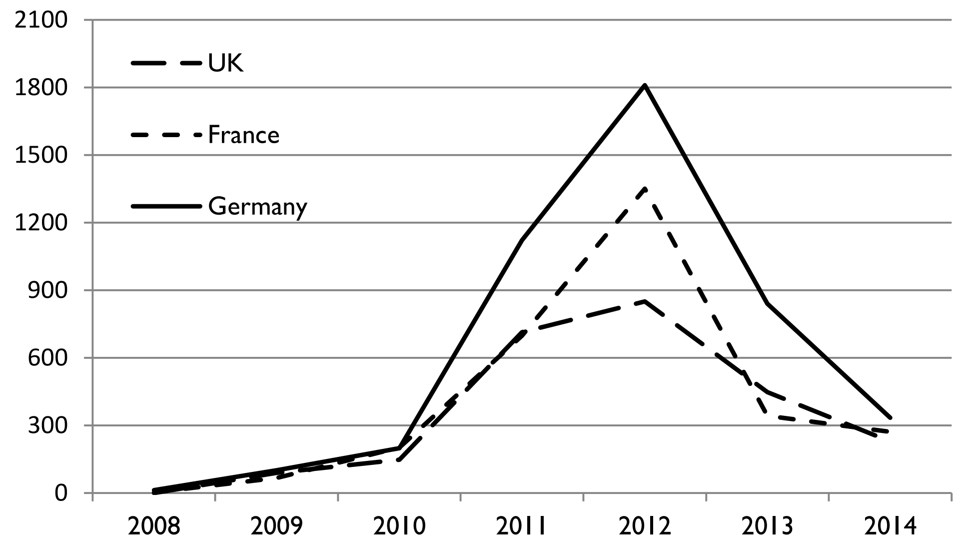


Figure 2. News coverage of the Financial Transaction Tax (*Source*: Factiva)



In summary, the greater involvement of elected politicians in the design of financial regulatory reform under conditions of public salience helped in particular non-industry stakeholders. During the financial reform debates, MEPs were generally accessible and willing to articulate a consumer viewpoint as highlighted during several interviews conducted for this project. With voters beginning to pay attention to financial reform, electoral considerations became important to policymakers. This suggests that, as long as the public remains engaged with policy debates, weak consumer interests can prevail over powerful business interests, even in a highly technical policy field such as financial regulation. Far from a long-term shift in the balance of power, developments in financial regulatory reforms after the crisis seem, however, to be more of a temporary setback for industry groups for the benefit of organized civil society, following the usual boom and bust cycle.

This note represents the views of the author and not those of PADEMIA. It is based on Lisa Kastner's thesis, titled 'Restraining Regulatory Capture: An Empirical Examination of the Power of Weak Interests in Financial Reforms', which won the 2016 PADEMIA Research Award in the category 'PhD Thesis'.

Lisa Kastner is a postdoctoral fellow in political science at the Max Planck Sciences Po Center on Coping with Instability in Market Societies, Paris. Her research focuses on international and comparative political economy and the politics of financial markets, in particular in the United States and the European Union. She holds a binational PhD from Sciences Po and the University of Cologne (2016) and a Master degree in European Studies from the University of Bath.