MONEY POLITICS IN THE NEW EUROPE

Money Politics in the New Europe

**Britain, France and the Single
Financial Market**

Daphne Josselin

Lecturer in International Relations

London School of Economics and Political Science

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DAPHNE JOSSELIN

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Abbreviations

ABI	Association of British Insurers
AFB	Association Française des Banques
AFBD	Association of Futures Brokers and Dealers – later SFA
AFEC	Association Française des Etablissements de Crédit
AFSB	Association Française des Sociétés de Bourse
AIBD	Association of International Bond Dealers – later ISMA
AITC	Association of Investment Trusts and Companies
APB	Association Professionnelle des Banques – later AFB
ASF	Association des Sociétés Financières
ASFFI	Association des Sociétés et Fonds Français d'Investissement
AUTIF	Association of Unit Trusts and Investment Funds – formerly UTA
BAC	Banking Advisory Committee
BBA	British Bankers Association
BBL	Bank Bruxelles Lambert
BEUC	Bureau Européen de l'Union des Consommateurs
BIFU	Banking, Insurance and Finance Union
BIIBA	British Insurance and Investment Brokers Association
BIIC	British Insurers International Committee
BIPAR	Bureau International des Producteurs d'Assurances et de Réassurances
BIS	Bank for International Settlements
BMBA	British Merchant Banking and Securities Houses Association
BSA	Building Societies Association
BSC	Building Societies Commission
CGC	Confédération Générale des Cadres
CAF	Commission des Activités Financières (of the AFB)
CBI	Confederation of British Industry
CBV	Conseil des Bourses de Valeurs
CEA	Comité Européen des Assurances
CENCEP	Centre National des Caisses d'Epargne et de Prévoyance
CFDT	Confédération Française Démocratique du Travail
CFTC	Confédération Française des Travailleurs Chrétiens
CGT	Confédération Générale du Travail

CLA	Comité de Liaison de L'Assurance
CLACR	Committee on Legal Affairs and Citizens Rights
CML	Council of Mortgage Lenders
CMT	Conseil du Marché à Terme
CNA	Conseil National des Assurances
CNC	Conseil National du Crédit
CNPF	Conseil National du Patronat Français
COB	Commission des Opérations de Bourse
COC	Comité des Organisations Professionnelles du Crédit
COPA	Committee of Professional Agricultural Organizations
CRB	Comité de la Réglementation Bancaire
DREE	Direction des Relations Economiques Extérieures (of the Finance Ministry)
DTI	Department of Trade and Industry
EBF	European Banking Federation
ECBF	European Community Banking Federation
ECJ	European Court of Justice
ECOFIN	Council of Finance Ministers of the EC
ECOSOC	Economic and Social Committee (of the EC)
ECSG	European Community Services Group
EEA	European Economic Area
EFIFC	European Federation of Investment Funds and Companies
EFML	European Federation of Mortgage Lenders
EFRP	European Federation of Retirement Provisions
EFTA	European Free Trade Area
ELA	Equipment Leasing Association
ENA	Ecole Nationale d'Administration
ESBG	European Savings Banks Group
ETUC	European Trade Union Congress
FBSHA	Foreign Banks and Affiliates Association
FFSA	Fédération Française des Sociétés d'Assurances
FHA	Finance Houses Association
FIET	Fédération Internationale des Employés, Techniciens et Cadres
FIMBRA	Financial Investment Managers and Brokers Regulatory Association
FNCA	Fédération Nationale du Crédit
FNSAGA	Fédération Nationale des Syndicats d'Agents Généraux d'Assurances
FO	Force Ouvrière

FSA	Financial Services Act
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GEMA	Groupement des Entreprises Mutuelles d'Assurances
GIFS	Groupement des Institutions Financières Spécialisées
GNS	Group of Negotiations on Services
ICSA	International Council of Securities Associations
IEP	Institut d'Etudes Politiques
IFMA	International Fund Managers Association
IFSE	International Federation of Stock Exchanges
IGF	Inspection Générale des Finances
IIF	Institute of International Finance
IMRO	Investment Managers Regulatory Organization
IOSCO	International Organization of Securities Commissions
IPMA	International Primary Markets Association
ISC	Institutional Shareholders' Committee
ISE	International Stock Exchange
ISMA	International Securities Markets Association
ISSRO	International Securities Self-Regulating Organization
LAUTRO	Life Assurance and Unit Trust Regulatory Organization
LOTIS	Liberalisation of Trade in Services (committee of British Invisibles)
LSE	London Stock Exchange
MSF	Manufacturing, Science and Finance
NAPF	National Association of Pension Funds
NUBE	National Union of Bank Employees
SBF	Société des Bourses Françaises
SFA	Securities and Futures Association – formerly AFBD and TSA
SFAC	Syndicat Français des Assureurs Conseils
SGCI	Secrétariat Général du Comité Interministériel pour les questions de coopération économique européenne
SIB	Securities and Investment Board
SNCAR	Syndicat National des Courtiers d'Assurance et de Réassurance
SRO	Self Regulatory Organization
TSA	The Securities Association – later SFA
TUC	Trade Union Congress
UCITS	Undertakings for Collective Investment in Transferable Securities
UFC	Union Fédérale des Consommateurs

UKREP	Permanent Representation of the United Kingdom (to the EC)
UNICE	Union des Confédérations de l'Industrie et des Employeurs d'Europe
USBPP	Union Syndicale des Banquiers de Paris et de Province
UTA	Unit Trust Association

Introduction

After nearly twenty years, during which Europessimism pervaded the academic and political scenes alike, interest in EC developments seemed in the late-1980s to be born again. Among the factors having contributed to this new impulse, the so-called 1992 Programme launched in 1985 undoubtedly ranked high. The establishment of a Single Financial Market constituted a major aspect of the programme: according to the Cecchini Report, the lowering of the cost of financial products and resulting increase in and rationalization of investment would induce a 1.5 per cent gain in Community GDP, one third of the overall gains to be expected from the completion of a Single Market among EC members (Commission of the EC, 1988a). Enough certainly to deserve more than a passing attention. It was also the one area where progress seemed quick and substantial, with 29 directives already adopted by the end of 1992, among which two keystones: the 'Second Banking' and the 'Investment Services' directives.

Compared with previous attempts at furthering economic integration, the 1992 Programme placed a particular emphasis on the removal of non-tariff barriers between member states. In the case of financial services, these comprised exchange controls and the existence of profound differences between national regulatory frameworks. At the same time, the occurrence of system failures (stock market crash of 1987, affair of the Bank of Commerce and Credit International of 1992) reminded the regulators that requirements for prudential control and supervision would have to be defined. Any attempt to solve this tension between liberalization on the one hand and 're-regulation' on the other was bound to foster discussions – even conflicts – between Community member states.

More generally, it has been stressed that 'competitive conditions in financial services are uniquely sensitive to the regulatory arrangements because the "goods" traded are themselves mostly regulatory creations – contracts, legally binding or otherwise, embodying a structure of financial claims and obligations' (Moran, 1991, p. 6). If one accepts the idea that economic competitiveness has now largely supplanted military supremacy as a concern for governments, the negotiation of regulatory details in Brussels acquires a new significance and raises a number of questions: how do states and interest

groups in the European Community organize themselves in this international struggle for competitive advantage? To what extent do they cooperate? Why are some more successful than others in promoting their own regulatory models? What could be the overall impact of these domestic strategies on the process of European political integration? This is what this survey aims at understanding, based on an analysis of British, French and EU policy networks in the sector of financial services.

THE CONCEPT OF THE POLICY NETWORK

The concept of the policy network is not new in international political economy. In 1978, Peter Katzenstein set forth to study the influence of domestic social and political structures on the foreign economic policy of six major states: Britain, France, Italy, Germany, Japan and the United States. Domestic and international factors had been closely intertwined in the evolution of the world economy since the middle of the nineteenth century, as shown by the foreign policy strategies adopted by Britain, Germany and the United States. A comparative analysis of the 'distinct policy networks linking the public and the private sector in the implementation of foreign economic policies' (Katzenstein, 1978, p. 19) would therefore contribute to a better understanding of policy outcomes and their effect on interstate relationships. A typology of policy networks was built, based on three criteria: the degree of centralization of society; the degree of centralization of the state; and the degree of differentiation between state and society. Katzenstein then arranged the six case studies alongside those three axes, and showed that his central assumption was verified: there was indeed a correlation between the shape of domestic policy networks and the strategies adopted with respect to foreign economic policy.

It is a similar hypothesis that is adopted here: that the shape of both domestic and transnational policy networks will influence, and be influenced by, the extent and modalities of international political integration. As a result, the study and characterization of these networks should bring insights about the nature and process of integration, if only at an empirical level. The book is thus firmly anchored in the neo-institutionalist realm (March and Olsen, 1984). So far, the concept of policy networks has been applied in two major fields: that of comparative politics (Katzenstein, 1978; Coleman, 1988; Wilks and

Wright, 1987; Marsh and Rhodes, 1992); and that of political sociology with the more quantitative surveys of structural analysts (notably Laumann and Pappi, 1976; Laumann and Knoke, 1987; Heinz *et al.*, 1993). The former approaches have developed network typologies to allow for the systemic conceptualization of state-interest groups interactions in a geographic or sectoral setting. By contrast, structural analysts have tried to use mathematic concepts to formalize and analyze network patterns. Although network typologies provide this work with its overall frame, structural tools are also drawn upon, in an attempt to better assess their potential contribution to the comparative study of domestic politics and, if possible, to further refine existing qualitative models.

This combination is then used to characterize and compare British and French policy networks in the financial services industry, with a particular emphasis on EC-related policy issues. Why Britain and France? For reasons related as much to the intrinsic nature of their political systems as to the important role played by the two countries in Single Financial Market negotiations. In his 1978 survey, Peter Katzenstein forcefully contrasted the features of British and French policy networks: the British would, in good Anglo-American tradition, be characterized by a fragmented policy network in which private interests would have the upper hand; the French would possess a 'symbiotic relation' between public and private sectors, to the net advantage of the former. These structural differences would be matched by markedly different choices of foreign economic policies: liberal on the British side, neo-mercantilist on the French. It seems reasonable to assume that these differences in network organization are also reflected in the way each country deals with the development of a new centre of decision-making in Brussels and with the negotiation of international regulations at EC level.

Indeed, one can only be struck by the frequent and open disagreement of their respective representatives over the drafting of financial directives. This opposition, especially striking in the case of the so-called reciprocity issue, was mainly a reflection of differences between the two countries as regards regulatory traditions in general, and international openness in particular; it was also related to the competition existing between what represent some of the most powerful European banks and insurance companies, a competition intensifying as the completion of the Single Financial Market was drawing nearer. By contrast Germany, third major player in Community financial services with respect to market size and leading financial institutions,

seems to have had a more limited input in the discussions (at least those pertaining to the credit and investment sectors).

In summary, three sets of questions are addressed with respect to Single Financial Market negotiations: first, to what extent were the overall patterns of policy-making within British and French financial services modified as a result of having to cope with the negotiations; second, is it possible to say that certain network characteristics were particularly favourable to the promotion of domestic interests at EC level; finally, what does it tell us about the role of policy networks, be they domestic or transnational, in the on-going process of regional integration?

ORGANIZATION OF THE BOOK

The structure of the book follows these lines. Chapter 1 examines the validity of a policy network perspective in the context of regional political integration and presents the analytical framework to be used throughout. While the overall political dynamic of European integration is defined with reference to neo-functionalism, comparative politics and structural analysis are drawn upon to provide criteria for the study of embedded policy networks. Chapter 2 then offers an overview of the Single Financial Market initiative, placing it in its wider economic and regulatory environment, and sketching British and French interests and positions in the negotiations.

In Chapter 3, the policy networks at work in the field of financial services in the two countries are presented historically. Member organizations and their individual attributes are reviewed and the two networks tentatively characterized in order to formulate hypotheses concerning the impact of 1992 discussions on their functioning. In the case of the City of London, the large number of policy actors and the existence of membership overlaps rendered plausible the idea of a certain rationalization of the structures of interest intermediation. At the same time, the competitive environment in which the groups operate might have led to an overall increase in monitoring facilities. Finally, the need to reduce information costs supposed a reinforcement and possibly a formalization of interorganizational connections, with a tightening of the overall network. In the case of the Place de Paris, the traditional weight of the state would have partly prevented an increase in EC-specific resources. Yet, the opening up of new channels of access, as well as the sheer scope of the negotiating agenda,

might have fostered more independent behaviour on the part of interest groups, with new communication exchanges and the emergence of proactive actors in the private sector.

In order to test these hypotheses, Chapter 4 focuses on the involvement of network organizations in the negotiations: individual and collective responses are analyzed, and effective patterns of EC-related communication linkages defined in an attempt to ascertain the impact of 1992 discussions on the shape and features of sectoral networks. Most of the hypotheses laid down are verified, confirming the resilience of existing policy networks in a shifting environment.

Chapter 5 then addresses the issue of network efficiency, and investigates the qualitative dimension of domestic policy networks through a descriptive survey of three case-studies: the negotiation of the Second Banking Coordination Directive; that of the Insider Dealing Directive; and the adoption of a European position on a General Agreement on Trade in Services (GATS). Mechanisms governing mobilization in the case of specific negotiations, consensus and dissent within national networks and negotiating teams, as well as participation in Brussels politics by domestic actors are more specifically examined. Evidence shows the significance of sectoral political systems for national representation at EU level. While cohesiveness and transparency in domestic policy networks appear as essential to the drafting of national positions, the ability to foster proactive strategies in Brussels must in no way be overlooked. The British network, with its horizontal and multipolar structure, would therefore be better suited to the promotion of national views in an EU setting than the French one, largely state-dominated.

Chapter 6 enlarges the scope of the survey, by concentrating on the transnational network emerging at EU level in the field of financial services. This network would fit the pluralist model, but with an inner core of strongly interconnected organizations. These belong primarily to the public realm, making the emergence of an EU policy network in financial services a state-driven process. On the private sector side, the competitive forces place clear limits to the emergence of supranational linkages. Financial services would thus differ from other sectors, such as agriculture and technology, in which issues would be increasingly defined in a sector-specific fashion. Chapter 7 gives a summary of major findings and provides a final assessment of the contribution of a network perspective to the study of EU policy-making and integration.