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The symbolic politics of delegation: macroprudential policy and independent regulatory authorities

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ABSTRACT
This paper investigates the motivations that led policy-makers to delegate macroprudential authorities to newly created independent systemic regulatory authorities (SRAs). Three case studies are examined: the US Financial Stability Oversight Council, the European Systemic Risk Board and the UK's Financial Policy Committee. Policy-makers' motivations are captured by examining the specific institutional features of the newly created SRAs and by tracing the legislative debates that surrounded their creation. The findings of this empirical analysis call into question several of the conventional claims that are used to justify delegation to technocratic agencies from the functionalist and ideational scholarship. Given the limitations of the explanations based on efficiency considerations and socialisation of welfare losses, this paper suggests that the delegation of powers to SRAs was ultimately motivated by what is referred to as the 'logic of symbolic politics.' It is argued that the main motivation that emerges from the legislative debates for delegating this important task is that the SRAs provided a quick institutional 'fix' to signal to the public that in the wake of the international crisis of 2007–2009, policy-makers were redressing regulatory mistakes made prior to and during the crisis that had caused a severe deterioration of public's wealth.

KEYWORDS
Delegation; ESRB; FPC; FSOC; macroprudential policy; regulatory agencies

1. Introduction

A key lesson drawn from the 2008 global financial crisis is that the microprudential regulatory framework, which dominated pre-crisis regulatory thinking and action, is insufficient to achieve financial stability. As the collapse of Lehman Brothers vividly illustrated, the instability and uncertainty of one institution risk creating a contagion that can rapidly spread across financial and non-financial institutions both within its own jurisdiction and to international financial networks. These risks can hardly be prevented by applying a regulatory framework that only considers financial institutions in isolation and aims mainly to ensure that each institution is individually solvent. The microprudential regulatory approach thus needs to be complemented with an approach that focuses on the stability of the financial system as a whole, what is now widely referred to as macroprudential regulation (see Baker 2013a). Macroprudential regulation is envisioned as being focused on dampening the boom–bust patterns of the credit cycle and increasing the resilience of the financial system as a whole in order to mitigate the macroeconomic consequences of a shock to the financial system. It

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does so by correcting market failures that give rise to systemic risks, including excessive risk-taking, financial interconnectedness and the build-up of common exposures.[1]

As part of the attempt to fill this regulatory gap, several advanced and emerging market economies created systemic regulatory authorities (SRAs). In some countries, the newly created authorities take the form of a single regulator, often housed in an existing regulatory agency. In others, the governance arrangement consists of a committee with several regulatory agencies, each of which has the legal authority and necessary expertise to oversee specific markets and sectors.[2] Although the macroprudential regulatory structures differ across countries, SRAs share a fundamental feature: they are species of the genus of non-majoritarian institutions. What this means is that SRAs are institutions that, by design, exercise specialised public authority and are not directly accountable to voters via the election channel (Thatcher and Sweet 2002: 2). As will be discussed below, the SRA typically serves as the face of the macroprudential policy framework and is responsible for monitoring and identifying systemic risks and triggering action to mitigate them. While the SRA can be held accountable for failures to maintain financial stability, it is not necessarily the authority responsible for implementing macroprudential policies to address these risks.

The delegation of specialised powers to independent regulatory agencies is not a new phenomenon in economic and financial governance. Notable examples include the diffusion of delegating monetary authority to independent central banks (Maxfield 1997, McNamara 2002, Grabel 2003) and delegating supervisory powers to unified financial authorities (Masciandaro 2007, Gandrud 2012). However, the question of why policy-makers distribute some of their powers to independent technocrats is always interesting; it may even be confounding in the aftermath of the global financial crisis. This is because the delegation of regulatory powers to technical bodies has occurred despite increasing public anger and scepticism towards domestic regulators (Thirkell-White 2009). Dissatisfaction with financial regulators is particularly evident in public attitudes towards central banks. Indeed, public opinion surveys reveal that confidence in central banks started to plummet around the time of the 2008 global financial crisis.[3]

This paper addresses this apparently paradoxical outcome by investigating the motivations that led *elected* policy-makers to delegate macroprudential responsibilities to new SRAs. Shifting the focus from experts and regulators, whose motivations have thus far figured prominently in analyses of macroprudential policy (Engelen et al. 2011, Baker 2013a),[4] the paper aims to provide a more complete picture of post-crisis changes in financial regulatory thinking and practices in three key jurisdictions: the USA, the European Union (EU) and the UK. In doing so, the paper draws attention to an explanation of delegation that has thus far escaped serious analytical scrutiny: the symbolic politics explanation. Drawing attention to the symbolic rationale that motivated policy-makers helps synthesise two well-established explanations that political scientists have long used to account for delegation patterns: the functional and ideational explanation. As will be discussed at greater length below, the logic of symbolic politics shares the functionalist assumption that delegation is made in anticipation of certain benefits. In contrast to the functionalist explanation, however, under the logic of symbolic politics, actors do not come to conceive of delegation as beneficial via strategic calculation, given predefined interests. But, like the sociological explanation, delegation is constructed as the 'best option' via socialisation to certain ideas. However, in contrast to the findings of recent scholarship where the relevant idea driving the embrace of a new regulatory approach and its institutionalisation is a technical consensus or regulatory 'practice' developed by experts (Engelen et al. 2011: 5, 201), this paper shows that a key idea driving policy-makers' actions was that of political accountability. Specifically, policy-makers were motivated by the recognition of the importance of closing political accountability gaps in financial supervision and thus avoiding a repeat of the pre-crisis period when no one public agency was in charge of presiding over the stability of the entire financial system.

We illustrate our arguments not only by examining the specific institutional features of the newly created SRAs, as most functionalist analyses do, but also by tracing the political processes that surrounded the creation of the three agencies in our sample. In order to reconstruct the political

process, data were drawn from the websites of the US Congress, Treasury Department and Administration; the European Parliament, Council and Commission; and the UK Parliament and HM Treasury. We also consulted secondary sources and financial press reports to gain insights into the political dynamics and narrative surrounding the creation of these institutions.

Before proceeding, three clarifications are in order. First, financial regulation and supervision entail different sets of activities. Financial 'regulators' are the rule-makers, and set the legal framework within which financial institutions must behave, whereas financial 'supervisors' are responsible for monitoring the financial institutions with a view to ensuring that they are obeying the rules set by the regulators. This distinction is simple when referring to microprudential regulation and supervision – that is, the setting of standards and monitoring adherence to these standards by individual financial institutions. From a macroprudential perspective, however, while a regulatory framework is still in the process of being identified and developed, it remains unclear what macroprudential supervision would entail. The SRAs are, therefore, more fittingly identified as macroprudential regulators. However, for the purposes of this paper, we will be using the terms 'regulator' and 'supervisor' interchangeably.

Second, as already anticipated, the term 'policy-maker' in this study refers specifically to elected policy-makers or government officials. Hence, even though regulatory authorities are commonly referred to as policy-makers, in this paper the focus is specifically on the motivations of members of the legislative and executive branches of government. Finally, this paper solely focuses on the decision to create new regulatory authorities with systemic financial stability responsibilities. This means that we do not claim that our explanation can satisfactorily account for the specific design features that each authority took in the jurisdictions under investigation. Rather, we explicitly recognise the limitations of our arguments and provide some empirical insights to show that a thorough explanation of design features requires more engagement with country-specific institutional and political factors.

This paper is organised as follows. In the next section we introduce the concept of macroprudential regulation, which is followed by a description of the basic institutional features of the Financial Stability Oversight Council (FSOC), European Systemic Risk Board (ESRB) and Financial Policy Committee (FPC). We then introduce the symbolic politics explanation alongside a critical examination of the functional and ideational arguments that are commonly used to explain the creation of independent regulatory agencies. The following section traces the political processes surrounding the creation of the SRAs in the USA, the EU and the UK with the intent of understanding policy-makers' motivations for the creation of the FSOC, ESRB and FPC. The final section concludes by reflecting on the findings and their implications for the implementation of macroprudential policy.

2. Macroprudential regulation in the EU, UK and USA

The rise to prominence of macroprudential regulation in policy debates is inscribed within the broader re-examination of the tenets of financial regulation that followed the 2008 global financial crisis. Specifically, the regulatory debate now revolves around the question of how to supplement traditional supervision and regulation of individual firms or markets within the broader context of an explicit consideration of threats to the stability of the financial system as a whole (see, for example, Tarullo 2014, Knight 2015).

Broadly speaking, the aim of macroprudential policy is to identify, monitor and address systemic financial risks; that is, 'a risk of disruptions to financial services that is caused by an impairment of all or parts of the financial system, and can cause serious negative consequences for the real economy' (IMF 2011). The case for macroprudential policy rests on the recognition that financial market failures have a critical bearing on macroeconomic outcomes (Blanchard et al. 2010) and that microprudential regulation is necessary but not sufficient to mitigate the failures that give rise to systemic externalities.

Microprudential regulation focuses on the health of individual institutions, and its models typically assume that risks are exogenous. To complement these policies, macroprudential policy analyses the

time and cross-sectional dimensions of prudential risks and takes a more endogenous approach to risk analysis (Borio 2014). The time dimension is concerned with stabilising the volatility of the credit cycle. During a credit boom, endogenous feedback between credit and asset prices can result in excessive leverage, increasing the vulnerability of the system to asset price shocks. Credit booms also increase the vulnerability of the financial system because they erode lending standards and incentivise an over-reliance on short-term wholesale funding (Dell'Ariccia et al. 2012). The financial system has a tendency to amplify the credit cycle, both booms and busts, through three major channels. First, as financial institutions tend to search for the highest yields, investors often move together in driving up the prices of assets when they appear to offer a higher return. The second channel is closely related to the first but is concerned with the other end of the credit cycle: that fire sales of assets seen as illiquid or highly risky serve to further depress prices and cause a system-wide deterioration of balance sheets. Third, the interconnectedness of financial institutions through financial assets creates a source of contagion that can render individual institutions too big to fail (Portes 2014). The scope and magnitude of the effects of these channels on the credit cycle are amplified by feedback loops through, for example, investor confidence in future price increases or investor expectations about how other market participants will react to fluctuations (De Long et al. 1990, Bikhchandani and Sharma 2001, Shiller 2003).

The goal of macroprudential regulation then is to address the externalities generated by the procyclicality and interconnectedness of financial markets. In particular, macroprudential policy should pursue at least three interlocking objectives. The first is to increase the resilience of the financial system to aggregate shocks by building buffers that ensure the financial system remains capable of providing credit to stimulate the real economy after severe negative economic or financial shocks. The second objective is to constrain financial booms that are characterised by the build-up of systemic vulnerabilities over time, amplified by procyclical feedback between asset prices and credit, and associated with increasing leverage and volatile access to funding (IMF 2013, Borio 2014). Finally, macroprudential policy should be directed at controlling structural vulnerabilities within the financial system that arise through interlinkages and the critical role of individual intermediaries in key markets – that is, the 'too big to fail' problem (for a full discussion see, for instance, IMF 2014).

In the three jurisdictions under investigation, new regulatory authorities have been created to facilitate a systemic approach to financial regulation within the domestic governance arrangement. The main features of these authorities will be discussed in turn.

2.1. The FSOC

In the USA, the FSOC was created in 2010 as part of the broader regulatory overhaul that culminated with the adoption of the Dodd–Frank Act. The FSOC brings together a diverse group of federal regulators to coordinate efforts to identify and respond to systemic risks. In particular, there are 10 voting members: Secretary of the Treasury, who chairs the Council, Chair of the Board of Governors of the Federal Reserve System, Comptroller of the Currency (OCC), Director of the Consumer Financial Protection Bureau (CFPB), Chair of the US Securities and Exchange Commission (SEC), Chair of the Federal Deposit Insurance Corporation (FDIC), Chair of the Commodity Futures Trading Commission (CFTC), Director of the Federal Housing Finance Authority (FHFA), Chair of the National Credit Union Association and an independent member with insurance expertise appointed by the President of the USA. There are also five non-voting members who serve in an advisory capacity.

The FSOC is charged with three statutory missions: monitoring the US financial system, identifying risks that threaten the system's stability and promoting market discipline to mitigate excessive risk-taking in financial markets. In order to achieve these goals, the council facilitates information-sharing among its member agencies regarding domestic financial services, policy developments, rule-making, examinations, reporting requirements and enforcement actions. In doing so, the FSOC can also request data and analysis from the Office of Financial Research (OFR) housed within the

Treasury.[5] Additionally, the FSOC has the authority to designate a non-bank financial firm for heightened consolidated supervision and to designate financial market utilities that perform payment, clearing or settlement activities as systemically important. Financial market utilities designated as systemically important are required to meet prescribed risk management standards and heightened oversight by the Fed, the SEC or the CFTC. The Council also has the authority to recommend stricter standards for non-bank financial companies and large, interconnected bank holding companies supervised by the Federal Reserve.[6] Where the FSOC determines that certain practices or activities pose a threat to financial stability, it can make recommendations to the primary regulatory agency for new or heightened regulatory standards. Importantly, regulators are not required to take action to satisfy FSOC recommendations; instead, recommendations are to be addressed on a 'comply or explain' basis.

2.2. The ESRB

The EU established the ESRB in 2010 within the adoption of a broader, more centralised framework of European financial governance. Originally foreshadowed in the de Larosière Report (de Laroisiére 2009), the Board is responsible for the macroprudential oversight of the EU's financial system. In order to achieve this goal, the ESRB has been assigned the power to collect and analyse information on the EU's financial system, identify and prioritise systemic risks and issue warnings and recommendations to national and European authorities. Recommendations are to be addressed on a 'comply or explain' basis; but, unlike with the US FSOC, recommendations are only made public upon a qualified majority vote by the General Board. In discharging its responsibilities, the ESRB works closely with the three newly created European Supervisory Authorities (ESAs): the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA).

In terms of composition, the General Board, which is the ESRB's decision-making body, consists of 38 voting members, including the central bank governors from all 28 EU member states, the President and Vice-President of the European Central Bank (ECB), a member of the European Commission (EC), the chairs of the three ESAs, Chair and the two vice-chairs of the Advisory Scientific Committee and Chair of the Advisory Technical Committee. There are also several non-voting members that represent relevant financial supervisory authorities of the member states. The president of the ECB chairs the meetings of the General Board, and the ECB also provides analytical, statistical, administrative and logistical support.

2.3. The FPC

In the UK, an interim FPC was created in February 2011, and the statutory role of the committee was later established in the Financial Services Act of 2012. The Act re-organised both the micro- and macroprudential regulatory frameworks, concentrating authority for both within the Bank of England (BoE), and strengthened the BoE's financial stability objective.[7] In effect, the new framework placed the BoE at the core of financial supervision.

The FPC consists of the governor and three deputy governors of the BoE, the chief executive of the Financial Conduct Authority (FCA), a member appointed by the governor of the BoE after consultation with the Chancellor of the Exchequer, four members appointed by the Chancellor of the Exchequer and a non-voting representative of the Treasury. The composition of the committee contains overlap with related decision-making bodies, including the Monetary Policy Committee (MPC) and the Prudential Regulatory Authority (PRA) Board. This overlap is to ensure that policy coordination is a central feature of the monetary policy-regulatory arrangement (Tucker 2013). The FPC's objective is to contribute to achieving the Bank's financial stability objective, and subject to that, supporting the economic policy of Her Majesty's Government, including the objectives of growth and employment.[8] The responsibilities of the FPC include identifying, monitoring and taking action to address

systemic risks to the UK financial system. Most of the analytical support for FPC activity is provided in-house – that is, within the central bank.

The FPC has been granted two powers to address systemic risks: recommendations and directions. The Committee can make recommendations to microprudential regulators, the FCA or the PRA, on a 'comply or explain' basis. It may also make recommendations to the BoE concerning its liquidity operations and, after consulting with the Treasury, it can make recommendations to the Treasury concerning macroprudential measures and other relevant regulatory activities. Its recommendations to the BoE and the Treasury are not, however, on a 'comply or explain' basis. The FPC can also give direction to the microprudential regulators concerning the implementation of macroprudential measures, once they have been delegated by the Treasury and approved by Parliament. These directions require action as soon as is reasonably practical, but the FPC cannot enforce the specific means or specific period by which they are implemented.

3. Why do policy-makers delegate?

What explains policy-makers' decisions to create technocratic regulatory bodies to administer macroprudential policy? The political science literature offers well-established explanations for why policy-makers delegate authority to third-party agencies. In particular, two strands of scholarship are relevant for the question being analysed: functional and ideational explanations.

From the perspective of the functional explanation, policy-makers create independent regulatory agencies to attain the efficiency gains that derive from solving commitment problems (Levy and Spiller 1996), overcoming informational and complexity problems (Epstein and O'Halloran 1994, 1999, Huber 1998) and shifting blame for unpopular decisions (Fiorina 1982). In other words, policy-makers follow the logic of consequences as they delegate authority in anticipation of specific benefits (Hawkins et al. 2006: 12–13).

The functionalist explanation has been applied to several policy areas, including, for example, telecommunication and monetary policy, and has been used to explain patterns of delegation at both the domestic and international levels (among others Majone 2001, Thatcher and Sweet 2002, Keefer and Stasavage 2003, Pollack 2003, Hawkins et al. 2006). Its logic can also easily be extended to the case under investigation in light of political economy and the technical problems associated with the exercise of macroprudential policy.

To start with, as discussed above, macroprudential policy is, by definition, countercyclical. This means that, to be effective, regulation must be implemented when there is excessive credit growth which may be creating asset price bubbles or increasing financial leverage beyond what the authorities regard as socially optimal for the financial system and the economy as a whole. During these credit booms, however, individuals, businesses and traders alike may be benefiting from the short-term effects of credit growth either artificially through short-term wealth gains and the impact on the real economy, or they may be genuinely profiting by exploiting market failures. Just as politicians may be tempted to oppose the adoption of disinflationary policies that could dent popular support, especially in 'good' economic times, politicians are also likely to oppose countercyclical macroprudential policies, especially during a financial boom (Goodhart 2008). Policy-makers may also hesitate to apply macroprudential remedies because of pressures from financial interest groups whose profitability and competitiveness may be negatively impacted by the implementation of both sectoral and countercyclical prudential standards. To overcome the short-term electoral interests that put at risk the implementation of macroprudential policy, delegation of powers to independent agencies offers an appealing solution. By assigning responsibility for identifying policy solutions to non-elected officials, SRAs are expected to shield the exercise of macroprudential policy from direct societal and political pressures, especially when the central bank assumes a leading role (see the discussion in Agur and Sharma 2013).

This justification for delegation could also be deduced in light of the technical challenges associated with the exercise of macroprudential policy. Most fundamentally, a systemic approach to

financial stability demands a great deal of market and institutional knowledge, analytical sophistication, capacity to process large amounts of disparate information and expertise (Bernanke 2009). This activity requires access to data from a wide range of sources as well as knowledge of the calibration and effectiveness of various policy tools (Claessens and Kodres 2014: 16). Since policy-makers do not command the expertise required to design and implement macroprudential policy, the functional logic expects them to rely on technical agents to provide them with expert information (Epstein and O'Halloran 1994, 1999, Huber 1998). In short, under the lens of the functionalist explanation, what motivates policy-makers to delegate macroprudential responsibilities are the credibility and technical benefits that derive from having agencies charged with systemic responsibilities.

The second explanation for the delegation of macroprudential responsibilities to independent regulatory agencies emphasises the role of ideas. In line with the insights of sociological institutionalism, it suggests that the decision to delegate reflects policy-makers' normative understandings. That is to say, policy-makers may not be acting out of self-interest in anticipation of specific benefits from granting authority to an agent; but instead, that delegation is conceived as the most 'appropriate' solution to a specific problem because policy-makers share intersubjective understandings about how to address that problem. From this perspective, delegation reflects the institutionalisation of policy-makers' idea (see, for example, Gandrud 2012).

This line of reasoning can be detected in a number of recent studies on the emergence of new regulatory paradigms after the crisis. Andrew Baker's (2013a, 2013b) analysis of the rise of the idea of macroprudential regulation is the most important case in point. Baker identifies a number of textbook conditions that the ideational scholarship regards as necessary to account for the institutionalisation of new ideas, including the uncertainty generated by the crisis and the advocacy of powerful agents that are well-situated in terms of the policy debate and technical expertise (see also Engelen et al. 2011). The successful combination of these factors facilitated the emergence of a new set of debates within the transnational regulatory community concerning the appropriate role of macroprudential policies and the institutional design of the financial regulatory framework. And since members of this community act as the transmission belt to domestic policy-makers, the logical conclusion is that they have exerted significant influence on domestic regulatory reforms. From this perspective, the FSOC, the ESRB and the FPC have all been established as a consequence of the 'macroprudential ideational shift' (Baker 2013a: 127).

This is not to say that ideational scholars deny cross-country differences in the take-up of macroprudential ideas. For instance, Baker explicitly acknowledges the emergence of different types of macroprudential regulation in the UK, the USA and East Asia, among other jurisdictions (Baker 2015). However, these differences pertain to a later stage of the institutionalisation process and do not affect the conclusion that the act of delegating authority over financial system stability to independent regulatory agencies largely reflects the execution of a new technocratic consensus that relies on insulating experts from democratic politics (Engelen et al. 2011: 200).

The arguments reviewed thus far contribute to explaining the delegation of macroprudential responsibilities to SRAs, but do not thoroughly cover the constellation of motivations that led policy-makers to create agencies with systemic responsibilities. In particular, focusing on either the functional or ideational explanations (or a combination of the two) risks ignoring an important component of policy-makers' motivations: the symbolic use of delegation as a means by which to previous policy mistakes.[9]

Table 1. Potential explanations for delegation.

	Logics of action	Generator
Functionalist	Logic of consequences	Strategic calculation
Sociological	Logic of appropriateness	Socialisation
Symbolic politics	Logic of consequences	Socialisation

The symbolic politics explanation combines insights from both the functionalist and ideational explanations (see Table 1). It shares the functionalist assumption that delegation is made in anticipation of benefits – the logic of consequences. In contrast to the functionalist explanation, however, under the symbolic politics explanation, actors do not come to conceive of delegation as beneficial via strategic calculation, given predefined interests. Instead, like the sociological explanation, delegation is constructed as the 'best-option' based on socialisation to new ideas. As discussed above, in the recent literature on macroprudential regulation, the ideas with causal influence on the emergence and institutionalisation of macroprudential policy have largely been identified in the technical consensus developed among financial experts.

From the symbolic politics perspective, however, policy-makers' decisions to create SRAs cannot be thoroughly explained by looking solely at the potential benefits of delegation or at the regulatory preferences of technocrats. Instead, policy-makers delegated macroprudential responsibilities to third-party agencies also to signal to the public that the accountability void of the pre-crisis period – where no public agency had been in charge of preventing financial instability – is being filled. In other words, policy-makers' motivations were also rooted in the growing importance attached to the idea that responsibility for financial stability had to be clearly allocated.

It is important to stress that the logic underpinning the 'symbolic politics' argument is distinct from the rationale of 'blame avoidance' as articulated within the functionalist explanation. In this literature, blame avoidance is one of the 'common rationales for delegation from legislators to agencies' (Thatcher and Sweet 2002: 4; see also Lavertu 2015). Indeed, independent agencies can act as scapegoats for unpopular choices for which elected politicans might otherwise be blamed (Weaver 1986). In contrast to this understanding, the symbolic politics rationale argues that policy-makers are not motivated by the desire to avoid responsibility for unpopular decisions, but instead that they seek to claim responsibility for their decisions. In the case under investigation, as will be illustrated at greater length below, policy-makers created SRAs with the view of seeking claim for having filled the accountability gap that had led to the financial crisis.

4. Policy-makers' motivations for the creation of the FSOC, the ESRB and the FPC

This section examines the political deliberations that led to the creation of the FSOC, the ESRB and the FPC. The period of analysis varies by jurisdiction depending on when the discussion on regulatory reform and financial stability oversight began. In the USA, the need for reform of financial supervision and regulation in order to be capable of addressing systemic risk had already been recognised by early 2008. A report released by the US Treasury Department in March 2008 laid out a framework for an 'optimal regulatory structure' which included a proposal for the creation of a 'market stability regulator' (US Treasury 2008: 15–16). In the UK, the reform process started in July 2009 when the Labour Government introduced a financial regulatory reform proposal which envisioned the creation of a Council for Financial Stability to be chaired by the Chancellor of the Exchequer, with membership of the Financial Services Authority (FSA) and the BoE. As for the EU, the political process that led to the creation of the ESRB was kick-started by the publication of the de Larosière Report in February 2009 – the final product of an advisory group commissioned by the President of the EC which was tasked to advise on appropriate reforms to European financial supervision and regulation.

Examining the political debates that surrounded the creation of the three SRAs, the potential benefits that would accrue from the act of delegation surfaced as an important motivation for policy-makers' actions. That is to say, in line with the expectations that derive from the application of a functionalist lens, policy-makers in all three countries paid attention to the efficiency consequences associated with the creation of systemic risk agencies. This is illustrated in the debate on the role of the central bank in the new agencies as well as on the independence of the new authority. Indeed, although different views existed on the extent to which central banks should be assigned systemic responsibilities both within and across countries,[10] the involvement of central banks in maintaining financial stability was regarded as a means through which to lend credibility and

overcome technical problems of macroprudential regulation. For example, George Osborne (2010), Chancellor of UK Exchequer, stated that the Conservative government's proposal for financial regulatory reform was founded on the fact that central banks have a comparative advantage in the skills and resources required to perform the macroprudential policy function: 'Our thinking is informed by this insight: only independent central banks have the broad macroeconomic understanding, the authority and the knowledge required to make the kind of macro-prudential judgments that are required now and in the future.' The UK Conservative Party (2009: 23) even compared independence for the financial stability mandate as akin to independence for monetary policy, thus hinting at the credibility gains that could be attained via the creation of SRAs. Similarly, a key EC (2009b: 34) staff report argued for central banks' involvement in the macroprudential task in light of the comparative technical advantage that monetary authorities would provide.

Policy-makers' decisions to delegate systemic responsibilities were also coloured by the lessons drawn from pre-crisis regulatory failures and the emergence of new regulatory ideas developed by financial experts. At the most basic level, reforms were preset on the idea that 'macro-prudential or systemic perspective on regulation must be incorporated into financial regulatory systems around the world' (HM Treasury 2010). Similarly, the EC's proposal was predicated on the idea that 'fragmentation in supervision [is] a source of major dangers' (de Larosière Report 2009: 72; see also European Commission 2009b). In the USA, the failure of the Lehman Brothers was a key trigger mechanism that led to a consensus that the existing financial supervisory arrangement had failed and reforming it was imperative for maintaining stability of the financial system.[11]

In addition to efficiency and normative drivers, however, the discussion among cabinet members, members of the legislature and advisory groups – including commissioned research, such as the de Larosière Group, and broader government consultations with industry – highlights another key motivation behind the creation of the SRAs: policy-makers' desire to signal their intent to close the accountability gaps in financial regulation. As Chairman of the House of Representatives (HR) Committee on Oversight and Government Reform, Henry A. Waxman, put it in a hearing in October 2008, '[t]he list of regulatory mistakes and misjudgments is long, and the cost to taxpayers and our economy is staggering.'[12] After a number of Congressional hearings on the subject from October 2008 to mid-2009, it became increasingly apparent to policy-makers that one of the main reasons for the failure was that no single authority had the responsibility to identify or the authority to address the build-up of systemic risks.[13] In presenting the Administration's proposal for regulatory reform in June 2009, President Barack Obama (2009) very clearly highlighted the need to fill this gap. Similarly, Tim Geithner, then Secretary of the Treasury, emphasised the need to assign responsibility and accountability:

> there has to be clear accountability with a responsibility matched with clearly defined authority … We have too many agencies, though, doing them now and yet still have large gaps in the system without anyone in charge or accountable. This is a mess, and we have to clean it up.[14]

Support for strengthening the accountability of financial markets and regulators was also visible in Congress; as Harry Reid, Senate majority leader, stated, '[w]e are moving to this [financial reform] bill because we need transparency, we need accountability, we need someone to respond to Wall Street because they have not responded to us.'[15] In the end, the FSOC was created to be the hub of macroprudential policy and would be held publically accountable for failures to maintain financial stability. As Tim Geithner clarified, the intent of the FSOC was

> to take authority that is diffused around a bunch of people and other things and move it to a central place. It is not fair to characterise it – although I understand the risk – that is some new bureaucracy we are imposing on top of the system. It is more like more accountability and clarity so people know where to go; you know where you go to when you see systemic failures.[16]

The same motivations are identified on the other side of the Atlantic. In the UK, both Alistair Darling, Chancellor of the Exchequer at the time, and George Osborne, then shadow Chancellor, proposed their own party's macroprudential policy framework in July 2009. Although Darling and Osborne disagreed on the specific institutional design, both sides of the aisle recognised the need to assign

responsibility for monitoring and responding to threats to financial stability. Darling indicated that what motivated the Labour Government's proposal for a macroprudential policy framework was the need for 'the right institutions to maintain financial stability and we must ensure that they have the right tools to do the job.'[17] The Conservative Party's Alternative White Paper released the day after the Labour Government's proposal stated that

> [i]f we are to minimise the chances and scale of future crises we need a policy framework that has both the analytical capacity to bring together these different factors and the corresponding powers to act decisively when risks are identified. (UK Conservative Party 2009: 4)

Shortly after the Conservatives formed a coalition government, the proposal for the FPC proclaimed: 'There will no longer be a gap in which responsibilities are unclear, and regulatory powers uncertain' (HM Treasury 2010).

The need to close gaps in financial supervisory arrangements in a way that ensures accountability to the public was likewise articulated in the EU. The de Larosière Report (2009: 13) noted a fundamental idea behind the proposal is that,

> the present crisis results from the complex interaction of market failures, global financial and monetary imbalances, inappropriate regulation, weak supervision and poor macro-prudential oversight. It would be simplistic to believe therefore that these problems can be 'resolved' just by more regulation.

But the report recommended that 'macro-prudential supervision requires, in addition to the judgments made by individual Members States, … an institution at EU level be charged with this responsibility in the European Union' (39–40). In response to the report, the EC similarly indicated that steps must be taken to fill financial supervisory gaps in the governance of European financial markets (European Commission 2009a: 4).

In short, a common rationale behind policy-makers' decision to delegate macroprudential responsibilities lies in the increasing recognition of the lack of accountability in financial governance arrangements. As Hoban (2010) aptly put it, '[n]ever again can someone ask who's in charge and get no answer.' In taking steps to fill the accountability gap, policy-makers were eager to signal to the public that they were champions of a new financial regulatory system characterised by stability. Indeed, policy-makers were trying to emphasise the good work they were doing in 'cleaning up the mess,' 'extinguishing the fire' and demonstrating that 'lessons have been learnt,' as put by Geithner, Goulard (2011) and Osborne (2013), respectively.[18]

While these motivations do help explain policy-makers' decision to act via delegation, the ultimate form of delegation – for example, the design features of each SRAs – requires taking into consideration country-specific factors and circumstances. For instance, institutional path dependence and the political realities of each of the jurisdictions contributed to shaping the design of the SRA. The unique situations that influenced the creation of the FSOC, FPC and ESRB are briefly discussed below.

4.1. The USA

In the USA, a large part of the debate on the creation of a systemic risk regulator concerned the role of the Federal Reserve. Indeed, the Treasury's 2008 regulatory proposal suggested that the Fed become the 'market stability regulator' by entrusting the agency with the 'authority to provide input into the development of regulatory policy and to undertake corrective actions related to enhancing market stability' (US Treasury 2008: 15–16). In early 2009, the US Government Accountability Office (2009: 52) released a report suggesting that '[h]aving a single entity responsible for assessing threats to the overall financial system could prevent some of the crises that we have seen in the past.' By October 2009, however, the role of the Fed and the view of having a single accountable agency in charge of macroprudential regulation had lost favour.

Indeed, after using its emergency powers for programmes that were unprecedented in size and scope, including the controversial usage of American International Group funding for employee retention bonuses, members of Congress became resistant to providing the Fed with additional

powers (also see Eichengreen 2015: 303; Goodhart 2015: 283–84). As early as February 2009, Barney Frank summarised the change of tone in the political debate, when he said that

> there was a great deal of interest in how the Federal Reserve has used that authority, how much money has been deployed, what are the criteria, to what extent are taxpayers at of risk for losing money here. It is an ongoing effort. … Going forward though, it does not seem to me healthy in our democracy for the amount of power that is lodged in the Federal Reserve with very few restrictions to continue.[19]

By October 2009, reservations about the Fed persisted. As one member of the HR Committee on Financial Services put it,

> I am not alone in my concerns about the Fed as a systemic regulator. There seems to be a universal distaste for the Fed in such a role on the Senate Banking Committee. Such a political reality would seem to make it less likely that the House would confer such new powers on the Fed either.[20]

Although it was once envisioned that the macroprudential policy framework in the USA would have the Fed as the single authority with significant powers, the central bank's role was slowly diminished as Congress lost confidence in the Fed after the controversial usage of its emergency powers.

Ultimately, the financial regulatory reform package took the least invasive approach to change. Indeed, the FSOC was created to be the hub of macroprudential policy and would be held publically accountable for failures to maintain financial stability, but while the Fed was granted additional authority to regulate systemically important financial institutions, the fact that it is not the *single* accountable agency for financial stability provides the illusion that it has not been granted significant new authority, thus making the reforms palatable to a sceptical Congress and irate public.

4.2. The UK

In July 2009, the Labour Government introduced a financial regulatory reform proposal that envisioned the creation of a Council for Financial Stability, to be chaired by the Chancellor of the Exchequer with membership of the FSA and the BoE. Interestingly, this initial framework was not dissimilar to the US FSOC or the EU ESRB in that it would be responsible for monitoring systemic risks and recommending actions to be undertaken by the appropriate responsible authorities (the FSA or BoE). The change in government that occurred after the 2010 elections was indeed crucial to differentiating both the responsibilities and the powers of the SRA in the UK relative to the US and the EU counterparts.

The Labour party sought to defend the existing supervisory framework – known as the tripartite system – that had been established in 1997 by then Chancellor Gordon Brown. As Darling stated, '[t]he fact that there have been mistakes in institutions is not a good reason for saying that we have to tear everything up. I believe that we should build on the strengths of the system that we have.'[21] The Conservative opposition found opportunity in the financial crisis to demonstrate that the policies of Labour governments had failed; their alternative proposal indicated that a Conservative government would, 'abolish the FSA and the failed tripartite system and create a strong and powerful BoE with the authority and powers necessary to ensure financial stability' (UK Conservative Party 2009: 4). The leadership of the Conservative party was not only trying to demonstrate the need to fill an accountability gap, but was also seeking to blame the Labour party for previous failings and convince the public that a more comprehensive reform was needed – indeed, they would later bring about this change (see Cameron 2008, Osborne 2009).

Just over one month after the Conservative and Liberal Democratic parties formed a coalition government in May 2010, Chancellor Osborne laid out the government's plan for financial regulatory reform and launched government consultations. It being the second overhaul of the financial regulatory framework in the UK in two decades, there was significant pressure for the Conservative party to 'get it right.' This is clearly reflected in the fact that their proposal relied heavily on external consultations, a point emphasised in the initial proposal as opposition party (UK Conservative Party 2009), as well as in their official proposal in government (HM Treasury 2010). This fact may help

explain why the UK's macroprudential policy framework more strongly reflected the fundamental ideas developed by the transnational epistemic community, such as the central role of the central bank and empowering the FPC with macroprudential tools.

As with the case of the USA, there remained concern about investing so much power in the central bank. The Joint Committee on the draft of the Financial Service Bill indicated that

> [t]he Bank will now have substantial powers to manage the British economy … This raises important issues of democratic accountability to Parliament. We make recommendations to ensure that the Treasury and Parliament will exercise more oversight of the new Financial Policy Committees' macro-prudential activities. (UK House of Commons and House of Lords 2011: 3)

Osborne made a point to emphasise that the Parliament would be required to approve any granting of powers to the committee and that the Treasury would be involved if any actions were to require the use of public funds.[22] An important difference between the US and UK cases, which may help explain the greater authority assigned to the FPC than the FSOC, is that in the UK, regulatory mistakes were blamed on the FSA rather than the central bank.[23] Because of the nature of the relationship between the central bank, government and legislature in the UK, measures introduced by the BoE in cooperation with the Treasury, such as the Northern Rock liquidity support facility and the Asset Purchase Facility, also had the support of the legislature. Instead, it was the FSA – the microprudential regulatory authority – that lost the public's trust and was therefore the first to have its authorities revoked.

4.3. The EU

The crisis made it clear that the fragmented supervisory arrangement of the EU would be ineffective and detrimental to the future of the European financial system. As then EC Commissioner Charlie McCreevy (2009) put it, '[s]lowly but gradually it has become evident that if Europe is serious about building a stable and truly integrated financial market, we must put in place a supervisory framework that supports this goal.' The fragmented nature of supervisory authority in the EU, however, proved a difficult obstacle to be overcome (Bini Smaghi 2009, McPhilemy 2014). Indeed, conflict between supranational and national supervisory responsibilities was influential on the design of the macroprudential policy framework by tilting the new framework towards the minimum shift of responsibility towards the supranational level, following an integration pattern that had become familiar since the entry into force of the Maastricht Treaty (Bickerton et al. 2014). This was clear from the beginning of the political debate that led to the creation of the ESRB, starting with the report by the de Larosière Group (Berès 2009, European Parliament 2010).

The design features of the ESRB were also influenced by some of the key legal principles upon which the EU builds, namely the principle of proportionality and subsidiarity (see, for instance, the discussion in European Commission 2009b). Proportionality requires that any actions taken at the EU level are necessary to achieve the objective; and, as previously indicated, subsidiarity suggests that EU level actions must produce a superior result to actions that could be taken at the national level. It is exactly in light of these principles that one of the most serious alternatives to the ESRB – namely the reliance on ECB/ESCB (European System of Central Banks) as the financial stability oversight authority – was rejected (European Commission 2009b: 33–38). Furthermore, attributing to the ECB/ESCB the powers linked to macroprudential supervision was regarded as 'detrimental to the system of checks and balances within the framework for managing the EU economy and financial sector' (35). In short, pre-crisis EU economic governance arrangements constrained the emergence of an SRA that would have concentrated too much power in any one EU institution. This concern is also evident in the powers attributed to the ESRB. As one official who followed the deliberations in the Council and the EP[24] put it,

> under the ESRB legislation, policymakers have not delegated so many powers, and have not delegated any binding powers at all! The Council – but also the European Parliament – was clear that they were not ready to delegate new powers. The only true power is the power to collect data – the others are simply warnings and recommendations.[25]

5. Conclusion

The 2008 global financial crisis revealed critical gaps and weaknesses in the most advanced financial systems and their regulatory frameworks.[26] In all three of the economies examined, governments and legislatures responded to these weaknesses by introducing legislation that significantly intervened in the structure and scope of domestic financial governance. One of the central elements of the legislative reforms, which were all signed into law between 2010 and 2012, was the incorporation of a systemic approach to financial supervision into domestic governance arrangements via the creation of new regulatory agencies.

This paper has examined the creation of the FSOC, the ESRB and the FPC with the view of unveiling the factors that motivated elected policy-makers to delegate macroprudential responsibilities to technocratic regulatory agencies, exactly at the time when the crisis called into question the technocratic governance that had dominated before 2008. In doing so, we have unveiled a logic of delegation that has often escaped scholarly attention: what we have defined here as the 'symbolic politics of delegation.' This explanation suggests that policy-makers were not only concerned about the efficiency gains of delegation, but were also focused on the signalling effects to the public. Rather than acting based on a technocratic consensus that advocated for increased and expanded powers for regulatory authorities, policy-makers were acting on the recognition of the importance of accountability in financial supervision.

Although the logic of symbolic politics helps illuminate some common trends in the rationale driving policy-makers in different jurisdictions, it is not without limitations. Specifically, the argument here sheds light on policy-makers' decisions to entrust regulatory agencies with systemic responsibilities – namely, as a way to make them accountable for what they had not been in the run-up to the crisis. However, the argument cannot satisfactorily explain the differences in the design of the newly created SRAs. To this end, a more country-specific approach is required. In particular, as the empirical analysis has begun sketching, the differences in the powers of the SRAs in the jurisdictions under examination reflect differences in domestic institutional structures and political realities. For instance, the fact that the ESRB has the least authority among the three SRAs here analysed (being responsible only for issuing recommendations and warning which require significant cross-national, cross-institutional consensus to be made public) can be traced back to the fragmentation between supranational and national supervisory structures that characterises the EU. In the USA, assigning the Secretary of the Treasury as the Chair of the FSOC largely reflects Congressional distrust in financial regulators, and in the US Fed in particular. In contrast to the FSOC and the ESRB, which were deliberately designed with limited powers, the political realities of the UK created a different trajectory for financial regulatory reform. Little compromise was required between the Executive and Legislative branches of government because of the UK Parliamentary system. As such, the Conservative–Liberal Democrat coalition government was able to implement the Conservative party's plan, devised over a year before they came to power, with ease. This involved abolishing the old system, largely associated with Labour governments, and creating a system with clear authorities and accountabilities.

The findings of the paper as well as their limitations invite further research as to the drivers of policy-makers' intervention in financial governance. Future studies could examine, for example, when one rationale (functionalist, ideational or symbolic) prevails over or combines with the others in specific decisions. In other words, more knowledge is needed as to the conditions under which it is plausible to expect policy-makers to act out of efficiency, normative or symbolic considerations. Likewise, further research is needed to ascertain when and how a rationale for action becomes a focal point of cooperation among policy-makers with different political orientations. The findings of the paper also call for a more sustained engagement between international political economy and comparative politics scholarships. As the empirical analysis has illustrated, decisions on financial governance arrangements do not solely take place among technocratic actors or market actors: the politics of financial regulation and supervision cannot

overlook the sources of elected policy-makers' preferences. The influence exerted by systems of government, partisanship and national traditions of policy-making, among others, are all factors that need to be more thoroughly incorporated in analyses of international financial governance.

Notes

1. For some early articulation of these risks, see Borio et al. (2001) and White (2006).
2. As will be clarified below, financial regulation and financial supervision refer to distinct sets of activities. For the purposes of this paper, however, we will be using the terms 'regulator' and 'supervisor' interchangeably.
3. Public opinion on trust and confidence in the three central banks in the sample fell significantly from the start of the 2008 global financial crisis until around 2012. In the USA, a GALLUP poll demonstrates that the net positive perception of the job being done by the Fed was 33 per cent in September 2003, but only 8 per cent in July 2009 when Obama proposed the financial regulatory reform package (Saad 2009). Furthermore, net confidence in then Chairman Ben Bernanke fell from a peak of 25 per cent in 2007 to 5 per cent by 2010 (Jacobe 2013). In the UK, net satisfaction on the job being done by the Bank of England fell from an average of 34 per cent in 2007 to 14 per cent in July 2009 when the Conservative Party initially introduced their plan to concentrate financial regulation at the BoE (Bank of England 2015). In the EU, net trust in the European Central Bank fell from 36 per cent in May 2007 to a 25 per cent in June 2009, a few months before the EC introduced its regulatory reform proposal (European Commission 2015; see also Gros and Roth 2009; Roth et al. 2014).
4. As Baker and Widmaier (2014: 490) acknowledge, the macroprudential ideational shift 'could not have proceeded without support from G20 leaders and finance ministers.'
5. The OFR has been established to support the activities of the FSOC. Specifically, it is tasked to collect and improve the quality of financial data, develop tools to evaluate risks to the financial system, and conduct research.
6. In particular, Section 165 of the Dodd–Frank Act assigns the Fed responsibility for overseeing large interconnected bank holding companies and for developing enhanced prudential standards for them.
7. The Financial Services Authority's responsibilities for microprudential supervision of banks and insurers have been transferred to a new, independent subsidiary within the BoE: the Prudential Regulatory Authority (PRA). The financial stability objective was originally established by the Banking Act of 2009 stating that, 'an objective of the bank shall be to *contribute to protecting and enhancing* the stability of the financial systems of the United Kingdom.' This was amended by the Financial Service Act (2012) to read, 'an objective of the bank shall be to *protect and enhance* the stability of the financial systems of the United Kingdom.'
8. This mirrors the MPC's objective concerning price stability with the same secondary function of supporting the government's economic policy.
9. For an early articulation of the symbolic uses of politics, see Edelman (1964).
10. As will be discussed at greater length in the following subsections, country-specific institutional arrangements and constellations of political forces influenced policy-makers' views on the 'optimal' design that the SRA should have taken.
11. This consensus is visible from the discussion during HR Hrg. 110-207 (6 October 2008), and HR Hrg. 110-209 (23 October 2008)
12. HR Hrg. 110-209 (23 October 2009), opening address of Hon. Henry A. Waxman, US Representative for the state of California.
13. See the discussions in, for example, HR Hrg. 110-143 (21 October 2008), 'Regulatory Restructuring and Reform of the Financial System'; HR Hrg. 110-209 (23 October 2008), 'Financial Crisis and the Role of Federal Regulators'; HR Hrg. 111-3 (10 February 2009), 'An Examination of the Extraordinary Efforts by the Federal Reserve Bank to Provide Liquidity in the Current Financial Crisis'; HR Hrg. 111-15 (18 March 2009), 'American International Group's Impact on the Global Economy: Before, During and After Federal Intervention'; HR Hrg. 111-20 (24 March 2009), 'Oversight of the Federal Government's Intervention at American International Group'; HR Hrg. 111-22 (26 March 2009), 'Addressing the Need for Comprehensive Regulatory Reform.'
14. S Hrg. 111-420 (19 November 2009); prepared statement of Hon. Timothy F. Geithner, Secretary of the Treasury, US Department of the Treasury.
15. S Deb. S2553 (22 April 2009), Restoring American Financial Stability Act of 2010; testimony of Harry Reid, US Senator for the state of Nevada.
16. HR Hrg. 111-76 (23 September 2009); testimony of Hon. Timothy F. Geithner, Secretary of the Treasury, US Department of the Treasury.
17. HC Deb (8 July 2009), vol. 495, col 971; testimony of Alistair Darling, Chancellor of the Exchequer.
18. S Hrg. 111-420 (19 November 2009); prepared statement of Hon. Timothy F. Geithner, Secretary of the Treasury, US Department of the Treasury.
19. HR Hrg. 111-3 (10 February 2009); opening address of Barney Frank, US Representative for the state of Massachusetts.

20. HR Hrg. 111-83 (1 October 2009); testimony of Scott Garrett, US Representative for the state of New Jersey.
21. HC Deb (8 July 2009), vol. 495, col 971; testimony of Alistair Darling, Chancellor of the Exchequer.
22. See HL/HC Deb, Join Committee on the Draft Financial Services Bill, 15 November 2011; response to Q1011, Q1017 and Q1019 by Rt Hon. George Osborne MP, Chancellor of the Exchequer.
23. The dissatisfaction with the US Fed and the UK FSA is clearly visible in the political discussions highlighted in the text; dissatisfaction with the Bank of England is less prevalent. In addition, public opinion polls suggest that public support for the US Fed was significantly more dented after the crisis than for the Bank of England (see, for example, Bank of England 2015; Zumbrun 2010). See also Ferran (2011) and Rawlings et al. (2014) for a discussion on the motivations behind the abolition of the FSA.
24. The ESRB legislation was adopted by co-decision, meaning that both the Council and the EP jointly adopt (that is, co-decide) legislation.
25. Authors' interviews with officials at EU institutions in Brussels, May–June 2014.
26. Numerous reports have been written discussing these weaknesses (see, for example, Brunnermeier *et al.* 2009; FSA 2009; Group of Thirty 2009; de Larosière 2009).

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