Convergence within National Diversity: A Comparative Perspective on the Regulatory State in Finance

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Abstract

The international political economy literature often expects that states end up in regulatory races to the bottom while competing for the most mobile segments of capital. While multilateralism argues that states are able to overcome prisoner dilemma situations by converging on international standards of regulation, comparative historical institutionalists assume ongoing diversity of regulatory frameworks. The paper shows that reforms of banking regulation in the U.S., Britain and in Germany exemplify a pattern of "convergence within national diversity." It is argued that a combination of comparative institutionalism with a multilateral perspective allows researchers to capture the causes and patterns of regulatory reform in finance. While convergence on a certain "hegemonic regulatory model" is due to intergovernmental coordination at the regime level, national diversity with respect to timing and extent of regulatory change depends to a large extent on the existence or absence of institutional veto points in the domestic political system.

Zusammenfassung

In der internationalen politischen Ökonomie wurde von einigen Autoren die These vertreten, dass sich Nationalstaaten im Wettbewerb um das mobile Kapital in eine Abwärtsspirale bewegen, die zu niedrigeren regulativen Standards führt. Multilaterale Ansätze hingegen betonen, dass Staaten solche Prisoner-Dilemma-Situationen durch Harmonisierung und Konvergenz auf internationale Regulierungsstandards überwinden können, während die Perspektive des vergleichenden historischen Institutionalismus wiederum von stabiler Diversität nationaler Regulierungsmodelle ausgeht. Der vorliegende Beitrag zeigt, dass Reformen der Bankenregulierung in den Vereinigten Staaten, Großbritannien und Deutschland zur „Konvergenz innerhalb nationaler Vielfalt" führten. Es wird argumentiert, dass die Ursachen und Muster regulativer Reformen im Finanzsektor am besten durch eine Verknüpfung von multilateraler Perspektive mit dem historischen Institutionalismus zu erklären sind. Während Konvergenz in Richtung auf ein „hegemoniales Regulierungsmodell" Ergebnis intergouvernementaler Verhandlungen auf Regimeebene ist, hängen nationale Unterschiede in Bezug auf den Ablauf und die Reichweite regulativen Wandels zum großen Teil vom Vorhandensein institutioneller Vetopunkte im nationalen politischen System ab.

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1 Introduction

While globalization has increased the cross-border spread of financial risks, the capacity of nation-states to cope with these risks seems to have decreased substantially. Some authors within the *international political economy literature* (McKenzie / Lee 1991; Rodrik 1997; Strange 1986, 1996, 1998; Greider 1997) contend that states lose control of policy instruments which would impose binding rules on their market constituencies. Market actors may use their opportunities for broadening their sphere of activity to circumvent public policies that would impose regulatory costs on them. European banks, for instance, used their exit options in the early 1970s to evade the creation of expensive capital reserves as risk buffers, by building credit pyramids in less regulated markets abroad (OECD 1983: 109). A pessimistic scenario suggests that states, while competing for the most mobile segments of capital, lower their standards of safety regulation and end up in "regulatory races to the bottom."

Against this pessimistic view, two other academic perspectives stress that prisoner dilemmas can be overcome. *Multilateralism* and the r*egime approach* (Ruggie 1993; Krasner 1983) argue that states can reduce the exit options of market players by engaging in multilateral cooperation at the European or global level. If states agree upon standards of regulation with which their market constituencies comply, regime competition can be overcome. In finance, rules providing for the safety and soundness of financial transactions are in fact increasingly formulated in European or global arenas by nation-states in bi- and multilateral negotiations. While the European Union's Single Market Program has been the most prominent example of European efforts at regulatory harmonization, international regimes such as the Basel Committee in banking (see Kapstein 1996) play crucial roles in harmonizing regulatory frameworks at the global level.

Comparative historical institutionalists (Thelen / Steinmo 1992; Pierson 1994) emphasize the institutional embeddedness of domestic political economies. State and society structures, patterns of interest intermediation, law systems and cultures of regulation shape the responses of political and economic actors to global market pressures. By providing actors with restrictions and opportunity struc-

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The paper summarizes the findings of a broader research project on "Globalization and the transformation of models of banking and capital market regulation in Germany, Britain and the U.S." The project was conducted at the Max Planck Institute for the Study of Societies in Cologne, Germany. Earlier versions of this paper were presented at the Annual meeting of the British International Studies Association in London, December 16–18, 2002, and at the FISC meeting at CEPREMAP in Paris, May 23–24, 2003. I am grateful to the participants of the discussion, to Phil Cerny, Jürgen Feick and Cornelia Woll, and to the reviewers of JPP for their helpful comments.

tures, institutions create certain historical paths which are not easy to leave. Therefore, neither "races to the bottom" nor "races to the top" will ever actually happen. In this view, it seems highly unlikely that countries will ever converge on a single model of financial regulation. Several comparative studies have in fact shown that regulatory reforms in the financial sector were to a large extent shaped by domestic institutions, such as styles of state intervention in the economy (Loriaux 1997), turf battles between different administrative departments and their market constituencies (Rosenbluth 1989) or the (fragmented or unitary) structure of the policy arena in which issues of regulatory reform were decided (Reinicke 1995). Countries are seen to have combined measures of deregulation and re-regulation in ways which allowed them to play the global market game with national rules (S. Vogel 1996, 1997).

I will argue in this paper that combining comparative institutionalism with a multilateral perspective allows us to capture the causes and patterns of regulatory reform in finance. Evidence is drawn from the historical development and transformation of banking regulation (from the 1960s to 2002) in the United States, Britain and Germany. In all of these countries, financial regulation is historically developed and strongly embedded in federalist or unitary state structures, patterns of state–society relations or legal traditions. This is why we would expect a persistence of domestic regulatory institutions and "path dependent" patterns of regulatory reform. On the other hand, the U.S. and Britain are financial markets of some considerable size with a substantial degree of internationalization. For this reason we would expect these countries to be "first movers" should global convergence on certain regulatory standards take place.

I will show in this paper that the dynamics of regulatory reform in finance exemplify a pattern of "convergence within national diversity." The countries studied did not respond autonomously to the negative externalities of financial globalization, but did in fact converge on a certain "hegemonic regulatory model" with regard to instruments of regulation and patterns of standard-setting. This model came about by intergovernmental negotiation at the global regime level and was then integrated into the European and the domestic regulatory framework. Countries converged only to a minor extent on new institutional frameworks, however, and also differed with respect to the timing and process patterns of reform. It is argued that national reform capacity depended to a large extent on the existence or absence of institutional veto points in the domestic political system.

The following section of this paper sketches out the institutions, instruments and patterns of standard-setting in banking regulation as they governed the United States, Britain and Germany as long as financial markets were considered to be more or less territorially bounded. The third section highlights the most distinctive global market and political changes. Thereafter, cross-national patterns of

convergence and diversity are described, followed in the next section by an assessment of the variables that account for reform outcomes. The last sections take issue with the generalizability of these findings, by comparing the case of banking regulation both with other reform efforts in finance and with regulatory restructuring in the European utilities sectors.

2 The Old Model of Banking Regulation: Public Regulation with Many Faces

Historically, the development of banks reflected either the need to finance public expenditure for war or various efforts to spur processes of monetary integration. Banks were in one way or the other "servants of the state." Not surprisingly then, countries like the United States, Britain and Germany extended state supervision of banks mostly in response to financial crises. The "public character" of the banking business might also help to explain why institutions of banking regulation were shaped by (unitary or federalist) state structures or national styles of state–society relations.

In the *United States,* the oversight system in banking reflected the highly fragmented structure of the federalist American state. Banks had developed first at the state level, and states were in charge of issuing bank charters. The Federal Government became involved in banking matters when money was needed to finance the American Civil War and government bonds were to be issued in order to finance the public debt. With the National Bank Act of 1863, the system of dual banking was established. The Office of the Comptroller of the Currency (OCC) was set up as part of the Department of Treasury, both to license and to regulate national banks. Banks received bank charters and the right to issue bank notes in exchange for distributing government bonds. Moreover, national banks were asked to keep their own minimum capital levels and to report to the Comptroller on a regular basis (OCC 1995: 43–52).

Efforts to create a federal central bank had failed several times in Congress. States, and the radical agrarian opposition in particular complained that a federal lender-of-last-resort would allow "Wall Street to take control of the countries' credit reserves" (OCC 1995: 88). When the Federal Reserve System was finally established in 1913, the new system was a compromise between those who feared too much Wall Street control and those who feared too much control from the Federal Government (Cerny 1994: 180). The Federal Reserve System (Fed) comprised of twelve regional central banks and a Washington-based Federal Reserve

Board. The Fed took over the task of guaranteeing the currency from the OCC, began to provide new Federal Reserve notes, acted as fiscal agent of the Treasury and as lender-of-last-resort. Moreover, the Fed became regulator of the group of national banks in addition to the OCC. Statutory authority for regulation now rested not only in both state and federal laws, but also in the hands of different federal regulators.

In the wake of the Great Depression and the banking crisis of the 1930s, President Roosevelt was able to overcome Congressional resistance to shift further regulatory tasks to the federal level. As part of the Banking Act of 1935, the Federal Deposit Insurance Corporation (FDIC) was founded as the third federal banking regulator. The FDIC was an independent regulatory agency with some oversight capacities and the mission of guaranteeing small deposits and undercutting the psychology of bank runs. Oversight functions were now carried out by three federal agencies and the states. Not surprisingly, regulations governing asset allocation, capital adequacy (solvency) and reserve deposits (liquidity) differed between the regulators, with the federal actors tending to stricter standards than the states. While capital adequacy regulation was important for all bank regulators, no fixed standards for measuring capital adequacy existed. Although this allowed for the special circumstances of individual banks to be considered by bank examiners, it also led to inequitable treatment across banks (Deeg / Lütz 2000: 382). Despite their overlapping regulatory spheres, regulatory competition among states and between the federal and state government was from now on mostly latent. Markets were segmented along geographical and functional lines. Price competition was limited primarily by interest rate regulation, market entry was restricted by limits on interstate banking (based on the McFadden Act of 1927), and the well-known Glass-Steagall Act of 1933 enforced a strict separation of commercial and investment banking activities. In general then, the U.S. banking system was comprised essentially of thousands of highly regulated local bank oligopolies.

As in the United States, the *British* banking market was highly segmented. Unlike in the U.S., this pattern of segmentation had evolved over time and had never been enshrined in law. Different types of banks (clearing banks, accepting houses, discount houses and building societies) were specialized in different segments of the banking business. The different banking groups operated cartels under the supervision of the Bank of England (BoE). Statutory regulation played a relatively minor role in the prudential control of banks. The Bank of England continued the long-standing tradition of exercising a light supervisory touch, its only threat being expulsion from any of the various banking associations. When the central bank was nationalized in 1946, the new Banking Act gave it the right to issue "directions" to bankers thought to be in need of corrective action. In practice, how-

ever, informal guidance or "moral suasion" from the Bank of England sufficed. Section 123 of the Companies Act of 1967 conferred a form of privileged status upon certain banking institutions. Certificates were granted to those deemed to be carrying on the business of banking in a bona fide manner. The practical effect was to establish a status ladder which could be climbed by banks as their reputation grew and their expertise developed. This resulted in the adoption of a perverse policy whereby those having achieved the highest recognition (like the clearing banks or the accepting houses) received the closest attention. Accordingly, many small and less well-known intermediaries escaped the Bank of England's supervisory net almost entirely (Hall 1999: 4; Coleman 1996: 177). The Bank developed clientelistic relationships with the senior management of the clearers that were at the top of the status ladder. Mutual understanding between the top management of the city banks and board members of the Bank of England was enhanced by common class and public school background. The highly flexible and informal style of regulation which is considered characteristic of the British regulatory culture (see D. Vogel 1986) left the Bank with plenty of scope in the interpretation and implementation of the legislative provisions. Supervision centered on the management interview and prudential requirements were tailored to the need of individual banks. The Bank of England negotiated individual capital buffers with a handful of privileged banks (Hall 1999: 5) Cartels and monetary controls contributed to the limitation of banking risk. In the case of a politically damaging bank collapse, the BoE was ready to step in as lender-of-last-resort and would organize a "lifeboat action" together with major banks and creditors (Hall 1993: 39).

In *Germany*, banking regulation was characterized by a corporatist pattern of standard-setting practiced by a federal regulatory agency and peak associations of the main banking groups. Private commercial banks, public savings banks and private cooperative banks attempted to compete with each other in what is known as "group competition" (*Gruppenwettbewerb*) (about which, see Deeg 1999: 19–20). Group competition signifies the fact that savings and cooperative banks do not compete individually, but collaborate with each other in their own group. Furthermore, these banks are organized in formal associations that were established around the mid-19th century. Historically, the associations of the savings banks and credit cooperatives organized cross-subsidies and rescue operations, functioned as accountants for their member banks, and ran some basic form of deposit insurance. Moreover, the associations acted as "private interest governments" (Streeck / Schmitter 1985) – membership was compulsory and the associations' accounting tasks were guaranteed by public law (see Lukas 1972: 20–26; Linder 1968: 31; Schmidt 1990: 46; 119).

In the wake of the banking crisis of the 1930s, the federal government initiated the first arrangements for federal banking regulation and supervision. The German Banking Act (*Kreditwesengesetz,* KWG) of December 1934 introduced norms of prudential regulation, some of which are still in place today (Bähre 1981). The main banking associations ran the central credit market committee (*Zentraler Kreditausschuss,* ZKA) as a coordination platform and interest rate cartel. After the Second World War, the ZKA became the place for the different banking associations to agree upon standards of capital adequacy and liquidity before these were discussed with the federal regulators. The ZKA enjoyed a public status since the German Banking Act allows the associations to be heard when standards of capital adequacy and liquidity are to be revised (see Linder 1968: 113). Since 1961 responsibility for banking supervision has been shared by the central bank (*Deutsche Bundesbank*) and a new federal banking supervisory office (*Bundesaufsichtsamt für das Kreditwesen,* BAKred), which is a higher federal agency under the jurisdiction of the Federal Ministry of Finance. Levels of capital adequacy and liquidity were negotiated by the BAKred and the peak banking associations, while the monitoring and enforcement of these standards was to a large extent delegated to the associations. The state, for its part, practiced a legalized and basically off-site style of regulation, which did not involve it interacting with individual banks in the daily regulatory business. On the other hand, the corporatist model of regulation allowed for the equal treatment of all banks and for low transaction costs since the federal agency had no need for an administrative substructure of its own (Lütz 2002: 128).

Taken together, patterns of standard-setting and techniques of regulation differed among Western countries. In the fragmented system of American federalism, capital buffers for risk protection depended on the policy of the respective regulator. In Britain, a pattern of highly individualized rule-making prevailed, while in Germany a corporatist mode of regulation led to uniform standards of capital adequacy covering the whole German banking market of about 3,000 banks.

3 A New Framework – Globalization of Markets and of Rule-Making

The 1980s are considered to be the decade in which financial markets entered the phase of actual globalization. The development toward expanding the territorial scope of financial activity began in the 1960s, but intensified in the mid-1970s after the collapse of the Bretton Woods System. Domestic governments retracted exchange controls, dissolved former price and interest rate cartels, lowered access barriers for foreigners to banking activities and stock exchange membership, and

Table 1 The Old Models of Banking Regulation in the United States, Britain and Germany

	United States	**Britain**	**Germany**
Model of regulation	Federalist regulation (until 1960s)	Clientelist regulation (until 1970s)	Corporatist regulation (until 1980s)
Regulatory structure	Decentralized	Centralized	Centralized
Public actors	Federal goverments and agencies (OCC, FDIC), independent central bank (Fed), state governments	Central Bank (BoE)	Federal agency (BAKred), independent central bank (and state governments)
Private actors	None	Privileged banking groups	Peak banking associations with public status
Instruments of regulation	Licensing Differentiated capital requirements Reporting duties Deposit insurance Lender-of-last-resort	Licensing “Status ladder” Moral suasion Individual capital requirements Management interviews Lender-of-last-resort	Licensing Reporting duties Banking associations as accountants (savings banks and credit cooperatives) Uniform capital requirements Minimum reserve Deposit insurance (in part)
Pattern of standardization	Different standards depending on policy of regulator	Individual standards for privileged banks	Uniform standards

allowed financial innovations to be traded. Moreover, advances in computer technology allowed arbitrage opportunities to be exploited on a worldwide scale. By the early 1980s, cross-border flows of capital had reached enormous volumes, and the issuance and trading of securities on international markets burgeoned.

This territorial expansion of economic activity was accompanied by the emergence of an increasingly dense network of interstate collaboration in matters of financial regulation. Both the EU's Single Market Programme of 1985 and the European Monetary Union hastened the harmonization of financial market regulation considerably. Probably equally if not more important are the efforts to coordinate regulatory standards at the global regime level. The Basel Committee for Banking Supervision, which is comprised of central bankers and regulatory agencies from the Group of Ten (G10) countries and Switzerland, has to be considered as the dominating coordinating body on matters of risk regulation. While each domestic regulator still supervises its home banking market (principle of home

country control; see Kapstein 1996), interstate collaboration has intensified over the last three decades. The Basel Committee issues recommendations with the character of "soft law." In the European Union, however, soft law is used to turning into statutory rules since Basel's recommendations serve as blueprints for the core EU directives in prudential banking supervision. Coordination efforts have been driven by failures of international banks and by reoccurring financial crises with which regulators and central banks have had to cope. Since banks have tended to use formerly unknown loopholes in the regulatory safety net in order to circumvent rules that have imposed costs on them (see, for example, the banking failures of Herstatt Bank in 1974, Franklin National Bank 1975, Banco Ambrosiano 1982; Johnson Matthey 1984), states have had a permanent incentive to deprive banks of any exit options through regulatory coordination. Particularly those countries with a highly internationalized home banking market, such as Britain, or with large numbers of international banks, like the U.S., have been most affected by international financial crises and therefore have pushed the harmonization of rules actively forward. The following sections will show that both countries have deliberately linked efforts of domestic re-regulation with those at the multilateral level.

At the end of the 1980s, the Basel Committee was able to produce a multilateral agreement, the Basel Accord, which established a uniform standard of capital adequacy, at least within the circle of the Western industrial nations, in order to safeguard against financial risks. In the following decade, the standardized and quantitative model of international banking regulation was challenged. The Asian crisis revealed that the debtor categories of the Basel Accord were too broad and no longer helped to separate the more "risky countries" from safer "investment havens." In fact, the Accord imposed perverse incentives on banks by stimulating them to engage in short-term, but uncertain lending for reasons of lower capital requirements (Financial Times, 7 April 1999:7). Thus, governments felt a need to look for "safer" standards of capital adequacy; however, this task was too great to handle without help from the banks because states alone could not (and still cannot) generate the degree of technical knowledge required. Moreover, American investment banks such as JPMorgan and Chase Manhattan urged the American representatives in the Basel Committee to push for a more flexible way to calculate risks and underlying capital reserves. Both of these banks had long been active in the securities trade and had developed considerable expertise with regard to internal systems of risk management (Hartmann 1996; interviews with members of the Basel Committee, 970620; 970522; 970617). Therefore, they expected to enjoy a competitive edge internationally if a more flexible model of international banking regulation was quickly introduced.

The new regulatory framework (Basel II), which is supposed to finally replace the former Accord in 2006 after a broad consultation and test phase, consists of quan-

titative as well as qualitative regulatory pillars (Basel Committee 1999, 2001). As regards the quantitative part, the new approach aims to better align capital charges to underlying risks by allowing banks to differentiate risk weightings according to the assessments of rating agencies or their own ratings. Countries without a rating tradition like Germany feared when the new framework was proposed that they would run short of credit money if banks held back higher portions of their own capital for credit to non-rated firms, as was originally suggested by the U.S.. Against this background, it was seen as a success of the German negotiators that the Committee finally decided to allow banks to make use of their own rating judgments in order to calculate the size of the capital cushions (Basel Committee 2001). With regard to the qualitative part, permanent oversight by the *domestic* regulatory bodies, now known as the "supervisory review process," will become the second pillar of the new framework. Governmental authorities act as "technical inspectors" that periodically test the forecast power of the banks' risk assessments based on ratings or their own mathematical models. Should such "backtesting" continue to reveal a poor ability of the bank to forecast risk, a penalty is placed on the way in which the bank's own model is rejected or the bank is required to hold capital in excess of minimum regulatory capital ratios. Taken together, the new regulatory approach of *mixed regulation* requires regulators and individual banks to interact closely on issues of risk management. As we will see in the following section, countries were facing different challenges to adapt to the changing market and regulatory environment.

4 Towards a New Regulatory Model: From Public to Mixed Regulation

In all of our three countries, domestic re-regulation was shaped by the outcome of multilateral collaboration. Countries differed, however, with regard to the type of regulatory challenge they were facing and also with respect to the timing and the process patterns of reform. Depending on the structure and size of the domestic banking markets, as well as on the regulatory structures and patterns of standardization, the countries' point of departure for regulatory reform was different.

The *American* system of fragmented regulatory federalism was particularly challenged in the early 1980s. Pressures to tighten the net of prudential supervision emerged after several failures on the part of large money center banks, particularly after the second oil crisis in 1979. Since deregulation of the American banking market was making only slow progress, U.S. banks used their exit options and engaged in the unregulated Euromarkets or became lenders to Third World countries. Not surprisingly, the large international banks were particularly hit by

the debt crisis in Latin America (1982/83) since they were creditors of Brazil, Mexico or Argentina, the countries with the largest debts (Reiner 1993: 15). When Congress decided to raise the American contribution to the IMF in order to help the debtor countries and thereby U.S. banks to overcome this debacle, pressures on the regulatory agencies rose. As yet, the different federal regulators had no industry-wide standard to measure the capital adequacy, asset quality, management performance or liquidity of a bank. In November 1983, Congress passed the International Lending Supervisory Act (ILSA), which gave regulators statutory authority to set and enforce minimum capital adequacy standards and thereby forced them to standardize at least one of these indicators (Reinicke 1995: 135–150). When the money center banks became aware that a new round of re-regulation was to be launched, they mobilized their allies in Congress. Representatives of California and New York, states where money center banks were headquartered, pointed out that American banks would suffer from competitive disadvantages if they had to comply with stricter capital adequacy standards than their foreign counterparts (Reinicke 1995: 175–178). The Fed began to link efforts to harmonize standards of capital adequacy at home with those at the level of the Basel Committee. By the time the U.S. and Britain agreed on the main features of an international capital adequacy standard in 1987, the two largest financial markets (which were later joined by Japan) had already found a sure-fire way of guaranteeing an international level playing field. This "two level game" (Putnam 1999) allowed the Fed to put pressure on the three federal regulators to agree on a single standard of capital adequacy and to enforce a strict implementation of this standard at home: when the Basel Committee published its final version of the Basel Accord in July 1988, the three regulatory agencies argued that a regulatory consensus reached by ten countries should not be questioned by a domestic lobby group.

When the American banking sector entered a phase of minor consolidation in the mid-1990s, the federal regulators became more sensitive to the banks' call to "lower the regulatory burden." Both the OCC and the Fed developed more risk-oriented techniques of prudential supervision, techniques which were increasingly tailored to the risk portfolio of single banks. The regulators began to practice on-site inspections, established their own "risk management departments" and used ratings to measure the quality of the bank's own risk management systems (Ludwig 1997: 15–16; OCC 1997). In the late 1990s, the Fed became the main advocate of a flexible, more risk-based model of banking regulation, both at the level of the Basel Committee and at home. Today, the Federal Reserve is interested in rationalizing prudential supervision since its regulatory domain is steadily widening. Due to the increasing repeal of both territorial and functional market barriers, the concentration process on the U.S. market has accelerated. While the smaller state banks have been absorbed by mergers, the number of financial

holding companies peaked at around 6,000 firms in 1998 (Fed 1998: 242). As a regulator of diversified financial holdings, the Fed differentiates both techniques and intensity of regulation according to the size and complexity of the regulated firms. Regulatory attention centers on the thirty largest and most complex banks, or LCBOs (large and complex banking organizations), since these global players seem to carry the largest financial risks. Banks classified as smaller and less complex are supervised on a more off-site, standardized and less sophisticated basis (Greenspan 1999). The new approach to systematically differentiate standards of prudential supervision according to the size and perceived risk portfolio of banks tends to minimize conflicts in the fragmented system of regulators. Moreover, regulation becomes more demanding for regulators without becoming more expensive for global players. In fact, the new regulatory paradigm has to be seen as the outcome of "capture" by the regulated firms.

Britain was affected by the negative externalities of financial globalization earlier than the United States. Since the beginning of the 1970s, London, as financial hub of the unregulated Euromarkets, faced failures on the part of secondary banks (like the London and County Securities), which were not covered by the domestic supervisory net. When difficulties escalated into a crisis which threatened to harm the inner circle of "fully recognized" city banks, the Bank of England launched a rescue operation in cooperation with the clearers. When the German Herstatt Bank collapsed due to heavy losses on foreign exchange speculation in June 1974, it became obvious that national rescue operations or regulatory measures were ineffective for dealing with cross-border crises. Unilateral measures of re-regulation, however, could cause competitive disadvantages, especially for a marketplace previously known for its "light supervisory touch." From now on, the governor of the Bank of England became increasingly active both at the European level and in the Basel Committee in linking international attempts at re-regulation with those on the home market and in preventing other states from regulating too quickly. Both the harmonization of banking law throughout the European Community and recurring banking failures at home paved the way for a more codified system of prudential supervision. The Banking Act of 1979 was in line with the First Banking Coordination Directive of the European Community (77/780/EEC). The act placed the Bank's supervisory responsibilities over the banking sector on a statutory basis and introduced authorization procedures for all credit institutions. Despite this, the Bank operated as before and used informal techniques of control (Fishman 1993: 13–14; Hall 1999: 28).

In the 1990s, both the failure of BCCI and, in particular, the debacle of the Barings Bank laid the ground for the restructuring of the British system of banking regulation. In the case of Barings, the Bank of England failed for the first time to organize a rescue operation – neither banks nor the state were willing to spend

money on bailing out this bank (Financial Times of October 27, 1995: 11). The BoE's oversight practices were challenged in the press, and the consulting firm of Arthur Andersen was asked to propose measures to improve the quality of banking supervision. The report recommended classifying banks according to their expected risk portfolios and focusing regulation on those institutes perceived as the "weakest links" in the system (The Financial Regulator 2/1996: 34–38). The Bank accepted these ideas, which had already been discussed in the Basel Committee in 1996, and issued a working paper to sketch out in detail the new RATE (Risk Assessment, Tools of supervision and Evaluation) system (BoE 1997).

The broad restructuring of the system of banking supervision that took place in 1997 was closely linked to the political imperatives of the Labour government. In May 1997, the new government introduced the "Financial Services and Markets Bill" in Parliament and announced its plans to completely reorganize the system of financial regulation. A new Financial Services Authority (FSA) was to be set up as a one-stop shopping regulator for all sectors of financial services. Today, the FSA's statutory objectives encompass rule-making for financial services in general, consumer protection and the fight against financial criminality. While losing its regulatory responsibilities, the Bank of England has been delegated the authority to run a monetary committee and to set interest rates independently, albeit within targets fixed by the government. A Standing Committee comprising delegates from the Bank, Treasury and the FSA meets on a monthly basis. The Treasury consults with the FSA on any necessary legislation, and it has also to be contacted if there is a perceived need for an official support operation (Hall 1999: 98).

Although this move had been part of Labour's election campaign, the decision came as a surprise to the governor of the Bank of England and indeed marked a power shift from the Bank to the government. Unlike former Tory governments, Labour has always criticized the existing system of clientelism in British financial regulation as inefficient and has favored more public oversight over the City. Moreover, finance minister Gordon Brown intended to keep the option of joining the European Monetary Union (EMU) open for Britain. This would have required an independent central bank, capable of deciding on monetary policy issues in collaboration with the European Central Bank (ECB) (Financial Times of August 4, 1997: 12).

In 1998, the British banking market was not only highly internationalized – 300 of 400 City banks were foreign-owned – but also dominated by 40–50 financial conglomerates. The FSA began to focus regulatory attention on these "complex groups" and now runs "review teams" to evaluate the banks' own risk calculations. The FSA appreciates that risks can be calculated either by the judgments of rating agencies or by the banks' own ratings since this allows regulators to take better account of the "best practices" of British banks (Clementi 1999). Taken to-

gether, this flexible and interactive style of mixed regulation is nothing new for British regulators, who to a large extent are used to relying on management interviews and on close collaboration with single banks. On-site regulation, however, has now come to include communication between regulators and the lower management levels of a bank (BoE 1998: 32–33; Davies 1999).

The *German* model of corporatist rule-making remained relatively untouched by financial globalization until the 1990s. In fact, both the Bundesbank and the Federal Ministry of Finance dealt with the failure of the German Herstatt Bank in a well-known, corporatist way. The central bank and the banking associations founded the "Liko-Bank" to provide credits to members of the associations in situations of insolvency. The Ministry threatened the private banking sector with the introduction of a statutory public deposit insurance, should the private banks fail to increase their contribution to the already existing deposit insurance fund of the association of private banks (*Bundesverband der privaten Banken*). A system of mandated deposit insurance funds, run by the three banking associations, was established. Article 32 of the German Banking Act requires banks to become members of a deposit insurance fund if they intend to apply for a banking license (Ronge 1979: 98–99).

The move towards a greater formalization of rules, which came with the European banking directives, failed to affect either the structure or the style of regulation, but only led to several revisions of the KWG. The development of a multi-level system of rule-making, however, with the EU and the Basel Committee representing core decision levels in matters of banking regulation, strengthened the position of the federal supervisory agency (BAKred) vis-à-vis the banking associations. Since the smaller banks in particular rely on the help of the agency to take account of their interests when prudential standards are negotiated, the BAKred has turned into a "gatekeeper" for the upper levels of decision-making. The supervisor not only benefited from informational advantages, but was also able to control the domestic implementation of EU directives better. From time to time this allowed the agency to push for a tighter implementation of EU directives than required (Interviews with German banks and the BAKred, 970618, 970424b).

In fact, the German model of corporatist standard-setting was not questioned as long as international harmonization led to quantitative standards (such as the capital ratio) being implemented at home. The first Basel Accord proved to be "autonomy-safe" since national styles of regulation could be pursued in the shadow of a quantitative minimum norm. The new model of mixed banking regulation, which is supposed to replace the former Basel Accord in 2006, attaches greater importance to highly differentiated, as opposed to uniform, regulatory solutions, to qualitative regulatory measures and to cooperation between

public and private actors in particular. Since this requires interactivity and flexibility in the daily business of regulators, it touches much more on the regulatory culture and puts countries under greater pressure to converge on certain "best practices" of regulation rather than on the previous uniform approach. For Germany, "Basel II" is a break with the national tradition of treating all banks equally through universally applied rules and regulations, a system upheld by corporatist traditions of power-sharing between the federal supervisory office and the main three banking associations, and by a supervision scheme monopolized by lawyers.

Moreover, Germany has no rating tradition on which banks can rely when calculating their credit risks. In the United States, more than 8,000 firms are said to be rated, whereas in Germany less than 40 firms have ratings, with the small and medium-sized firm segment not being rated at all. While global players are willing to assume the costs for the development of sophisticated models of risk management, small and medium-sized banks prefer simple and standardized techniques of calculating risks in order to save on development costs. It is for this reason that we are observing an increasing *diversification of policy preferences* within the domestic banking community on issues of regulation. This, however, seems to challenge the existing cartel of banking associations much more than it questions the role of the state in the model of sectoral governance. While the associations of savings banks and credit cooperatives are still eager to provide "club goods" (Buchanan 1965) by setting up internal credit rating schemes for their members, the larger private banks prefer risk management techniques that are tailored to their individual needs (Financial Times Deutschland of December 18, 2000: 18). The state, for its part, now engages in closer collaboration with global players and reorganizes the supervisory structure to keep up with the modeling and measurement specialists from the banking sector. The federal banking agency has created a new department employing statisticians and economists who now collaborate with risk managers at the head offices of the major banks in Germany. The need to build up in-house expertise in risk management by hiring practitioners from industry has raised the question of a more flexible payment structure. The institutional answer to this problem has been to found the BAFin (*Bundesanstalt für Finanzdienstleistungsaufsicht*) as a formal umbrella regulator for banking, capital markets and insurance. Unlike its British counterpart, the new agency is not independent but still under the jurisdiction of the Federal Ministry of Finance. The three existing sectoral oversight bodies have not yet been dissolved, but have become departments of the new regulator, while the division of regulatory tasks among them remains untouched. Restructuring should allow for a more flexible payment of the agency's staff since the supervisor's funding is provided by the banks and no longer by the state (BMF 2001 and 2002).

Table 2 The New Models of Banking Regulation in the United States, Britain and Germany

	United States	Britain	Germany
New Model of regulation	Mixed regulation with state participation	Mixed regulation	Mixed regulation with participation of associations
Regulatory structure	More centralized	Centralized	Centralized
Public actors	Federal gov. and agencies (OCC, FDIC), indep. central bank (Fed), state gov.	Independent regulatory agency (FSA)	Federal agency (BAKred; since May 2002 BAFin); indep. central bank
Private actors	Global players	Global players	Global players Peak banking associations
Instruments of regulation	Licensing Differentiated capital requirements Reporting duties Off-site examination On-site inspection Supervisory review process Deposit insurance Lender-of-last-resort	Licensing Differentiated capital requirements Management interviews Reporting duties On-site inspection Supervisory review process Deposit insurance Lender-of-last-resort	Licensing Differentiated capital requirements Reporting duties On-site inspection Supervisory review process Banking associations as accountants Deposit insurance
Pattern of standardization	Different standards depending on the size and risk portfolio of bank	Different standards depending on the size and risk portfolio of bank	Different standards depending on the size and risk portfolio of bank

5 Cross-National Patterns of Convergence and Diversity

The comparison of our three cases indicates that there has in fact been a certain amount of convergence regarding the *outcomes* of regulatory reforms. Countries converged primarily on new techniques and patterns of standard-setting, but only converged to a minor extent on new institutional frameworks. The new "hegemonic regulatory model" accounts for greater interactivity between public regulators and global banks in the daily routine of regulation, for more qualitative than quantitative ways to measure (and buffer) financial risks, and for differentiated levels of capital requirements depending on the size of a bank and its risk portfolio. This model of regulation is probably more alien to countries like

Germany than it is to Britain with its highly flexible and interactive tradition of financial market regulation or to the U.S. whose fragmented oversight structure has always inhibited the development of fixed capital adequacy standards.

We do see convergence in the institutional make-up of banking regulation to the extent that there has been a certain power shift towards the federal state level in all countries in response to globalization. In the United States, for example, the Federal Reserve Board has gained ground on the fragmented battlefield of federalist banking regulation. In Britain, power has shifted from the Bank of England to the government, and to the Treasury in particular, while in Germany the position of the federal regulator within the corporatist setting of regulation has been strengthened. Weight-shifting among actors, however, takes place within institutional frameworks of regulation that are still diverse across countries. The American system of regulatory federalism remains relatively untouched by pressures to integrate all subsectoral regulators. In fact, it seems rather unlikely that regulatory agencies will ever be dissolved; strong regulators (like the Fed or the U.S. Securities and Exchange Commission as regulator of securities trading and capital markets) use to ally with their respective congressional oversight committees and also with their regulatory clienteles in order to defend their turfs. Britain and Germany have moved to the model of "one-stop shopping regulator," but have done so within their respective administrative traditions and preexisting patterns of regulation. The newly founded British FSA is an independent regulatory agency which consults with the Treasury and the central bank on issues of legislation or possible bailouts and reports to parliament on a regular basis. Conversely, the German BAFin operates within the administrative hierarchy of the Ministry of Finance, is therefore not independent and still confers with banking associations on regulatory matters.

It is neither obvious that the model of an integrated financial market regulator will become "best practice" even in Europe. So far, only Austria, Sweden and Denmark have followed the British model of integrated oversight; other countries (Belgium, Ireland and Spain) share a regulator for only two subsectors, while the majority of countries (France, Italy, Netherlands, Finland, Portugal, Greece and Luxembourg) run systems with three subsectoral regulators.

Cross-national diversity also characterizes the *timing* of regulatory efforts and the *extent* of institutional change. Britain started to codify its system of prudential supervision in the early 1970s and followed this by taking incremental steps to establish a model of mandated self-regulation over the capital market during the Thatcher era. It was not until the mid-1990s that a restructuring of the financial oversight system took place which, compared to what happened in the U.S. or in Germany, has to be seen as the most fundamental break with previous structures. By shifting regulatory authority from the Bank of England to an independent sec-

toral regulator, the British government demonstrated its willingness to break with the clientelist and cozy relationships that obtained between regulator and City firms.

The United States were much more persistent with respect to the institutional framework of banking regulation. Pressures to coordinate capital adequacy standards among the federal regulators rose in the 1980s, while the 1990s saw an incremental development towards "risk-sensitive" instruments of prudential supervision within the existing institutional setting.

In Germany, efforts to initiate regulatory reform advanced in the 1990s, when the corporatist model of uniform rule-setting was challenged by the new flexible and interactive paradigm of risk regulation. The establishment of an integrated regulator for banking, capital markets and insurance, however, seems less revolutionary than in Britain since the sectoral regulators have not been dissolved but only formally subsumed under one umbrella.

6 Explaining the Pattern: The Interplay of International and National Variables

The mixed pattern of "convergence within national diversity" which characterizes the outcome of regulatory transformation can be traced back to the interplay of international and national factors which shaped the national responses to the negative externalities of financial globalization. The United States, Britain and Germany did not respond autonomously to global pressures, but coordinated their responses at the regime level of the Basel Committee (and also within the European Union) in a multilateral fashion. Coordination of national regulators and central bank governors was spurred on by international financial crises and recurring banking failures, partly induced by the banks' efforts to exploit loopholes in the regulatory safety net. States or central banks were then forced to organize bailouts and to socialize the costs of privately undertaken risks. It is for this very reason that states were the driving forces of regulatory restructuring both at the international level and at home. States had an incentive to collaborate since unilateral measures of regulation could always be bypassed by international banks and were seen to cause competitive disadvantages for those who acted as "first movers." Not surprisingly then, those countries which were most affected by financial crises or banking failures actively linked domestic re-regulation with coordinated action in order to reduce their adaptation costs. In the 1970s, Britain was a driving force of regulatory coordination at both international and European

level. Banking failures on the unregulated Euromarket had caused spillover effects on City banks and put pressure on the Bank of England to adjust the British model of "light supervision" to the new challenges. When the debt crisis of the early 1980s hit American banks and led to an IMF bailout, it was the U.S. who initiated a new round of regulation. The 1990s saw the move towards a more flexible model of banking regulation, partly as response to the pressure of U.S. investment banks, which had already developed considerable expertise with flexible techniques of risk management, and partly as an answer to the Asian crisis and to the apparent deficits of the old standardized approach. Germany was more of a rule taker than shaper on the international scene. In the 1990s, the German negotiators in the Basel Committee actively worked on adapting the flexible model of banking regulation to the non-rating tradition of Continental countries in order to minimize any competitive disadvantages that might result from regulatory reform.

All in all, the international harmonization of rules was driven by domestic regulators pursuing national interests. Their role as "gatekeeper" to the upper levels of rule-making, however, strengthened national regulators vis-à-vis their domestic constituencies and helped them to overcome resistance to reforms at home. The Fed in particular made use of this strategic position as intermediary to put pressure both on other federal regulators and on money center banks to agree on a single standard of capital adequacy. The German federal supervisory agency, for its part, used its gatekeeper relation to the EU and the Basel Committee from time to time to push for a tighter implementation of EU directives than was required.

Linkages with international games, however, did not completely shape the patterns and outcomes of domestic reform. Countries had different starting points for regulatory reform, different challenges to cope with and different conflicts to solve in order to transplant the "hegemonic regulatory model" into their respective domestic frameworks. Some countries like Britain restructured earlier and more fundamentally than the U.S. or Germany. It is here where the diversity of domestic institutions comes into play – notably the role of political systems, of (unitary or federalist) state structures, of patterns of state–society relations and of the structure of national banking markets.

Political institutions, for instance, shaped the domestic reform *processes* by providing reform opponents with either opportunities or obstacles to veto regulatory efforts. In the United States, reform opponents used the system of fragmented federalism in the 1980s to substantially slow down the process of harmonizing capital adequacy standards: states in which money center banks were residing allied with their market constituencies in Congress to prevent the federal regulators from launching a new round of regulation.

In Britain, it was precisely the absence of those veto structures that allowed financial oversight competences to be transferred to a new independent regulatory agency. This comparatively high reform capacity was due to the political imperatives of the Labour government. Strong political leadership in Britain is based not only on political ideas and programs but also, to a large extent, on a political system that allows potential veto players only minimal access. Institutional features such as the system of majority voting, single party government and a unitary state structure strengthen the government's capacity to act once it has decided to do so.

The German political system is usually seen as providing potential veto players with maximal access to political decision-making. The pattern of "centralized society and decentralized state" (Katzenstein 1987), that is, corporatism and the interlocking politics of German federalism, is usually seen as inhibiting significant policy changes. In finance, however, it has been more in securities and capital markets that regulatory reform has been shaped by veto structures in general and by federalism in particular. In the past, the German *Länder* actively defended their formerly quite stable federalist model of horizontal power-sharing against efforts to centralize sectoral oversight authority at the federal level. Turf battles between the Federal Ministry and the states halted the process of regulatory centralization for a while since the *Länder* were able to use their codecision rights in the upper federal chamber (*Bundesrat*) to veto pending federal legislation aimed at creating a federal supervisory body (Lütz 1998; Deeg/Lütz 2000). In banking, however, corporatism did not play out as a veto structure, partly because of the growing diversification of policy preferences among the banking associations and partly because there was no need to impede the implementation of the flexible approach since risk management instruments could now be tailored to the needs of different banking groups. In fact, today the corporatist implementation structure itself is transforming, although not completely eroding. Closer collaboration between public regulators and global banks on issues of risk management coexists with associational governance when it comes to setting up internal rating schemes for the small and medium-sized segment of banks. Corporatism obviously allows for the implementation of a greater variety of regulatory practices within the domestic sphere.

Finally, differences in the structure of national banking markets also account for the diversity of regulatory frameworks. Both the United States and Britain have seen substantial concentration processes, which provide some functional rationale for further centralization of the regulatory setting. In the U.S., concentration has accelerated due to the increasing repeal of both territorial and functional market barriers. As a response to this "decompartmentalization" of the domestic market (Cerny 1993, 2004a), the number of federalized holding companies made

up of partially or wholly owned subsidiaries operating in different market sectors has expanded – and with them the regulatory domain of the Federal Reserve Board (Deeg / Lütz 2000). In Britain, the emergence of large financial conglomerates has provided some functional reasoning for shifting oversight duties from subsectoral regulators to a "one-stop shopping regulator." In contrast to the United States and Britain, the German banking market is still characterized by a large number of small and mid-sized banks, a fact that makes the persistence of banking associations in the regulatory model more likely than the transfer of further regulatory tasks to the federal supervisory agency (BAFin). As yet, concentration processes have been considerably buffered by a regional public banking sector and by bank – company networks still based on equity ownership and on seats held by banks on supervisory boards (Deeg 1999; Lütz 2000).

7 Theoretical Implications

One lesson that we can draw from this study is that domestic responses to globalization go beyond the commonly stipulated alternatives of either "convergence" or "persistence," by providing a mixture of both. Whether these "hybrid outcomes" – mixes of old and new elements – will constitute new and stable institutional equilibria in national regulatory frameworks or just mark a state of transition en route to further convergence (Cerny 2004b) remains an empirically open question. In our case, countries do converge on patterns of standardization and instruments of regulation while differences in the underlying institutional frameworks of regulation prevail. Cross-national diversity also characterizes the timing of regulatory efforts and the extent of institutional change – with some countries being seen to launch reforms earlier and to restructure their regulatory framework more substantially than others.

I have explained this outcome by reference to the interplay of international and national levels of regulatory reform. States coordinated their responses to the negative externalities of financial globalization multilaterally in order to reduce the competitive disadvantages of being "first movers" in processes of re-regulation. International games backed the efforts of those who acted as intermediaries to overcome domestic resistance to reform, but determined neither the process patterns nor the extent of regulatory change. Domestic institutional variables help to fill this explanatory gap: while political institutions shaped domestic reform processes by providing reform opponents either with opportunities or with restrictions to veto regulatory efforts, differences in the structure of national banking markets help to account for the ongoing diversity of regulatory frameworks.

The findings of this study suggest that the adequate "toolkit" for research on globalization effects crosses the disciplinary divide of either an "international relations" or a "comparative institutionalist" framework, but requires a systematic linkage of both.

A crucial issue for further globalization studies is whether the theoretical framework presented here has any validity beyond the case of regulatory reform in banking. To what extent can we generalize from our case study? I first discuss this point within the sector of finance, comparing the case of banking regulation with reforms of stock exchange regulation and with recent transformations of corporate governance systems in Europe. I then turn to the cross-sectoral perspective and locate my findings within the debate on the "new regulatory state in Europe."[1]

The mixed pattern of "convergence within diversity" that characterizes the outcomes of regulatory reform in banking differs not only from securities regulation, where we observe an even higher degree of convergence, but also from corporate governance reforms in Europe, which have produced quite diverse outcomes. Reforms of stock exchange regulation in the United States, Britain and Germany have paved the way for convergence on common philosophies and instruments of regulation, which emphasize the investors' rights of information and transparency on market transactions and the state's task to provide legal penalties for non-compliance with market rules. Moreover, countries have substantially reorganized their institutional frameworks of regulation by replacing systems of private self-regulation with those of public oversight (Lütz 1998, 2002).

Conversely, patterns of corporate finance and governance in Europe are still considerably diverse across nations. Deeg and Perez (2000) argue that corporate governance reforms in Italy, Spain, France and Germany have not only broadened the diversity among the four cases, but also have tended to widen rather than narrow the gap between the Continental "insider model" of corporate governance, associated with a concentrated ownership structure, low market transparency and the absence of hostile takeovers, and the Anglo-Saxon "outsider model" of an equity-dominated market in corporate control.

What accounts for the varying degree of convergence even within the financial sector? First, it seems to matter what kind of "dependent variable" we are looking at. The cases of capital market and banking regulation exemplify considerably *policy-related* transformations, that is, revised patterns of either rule-setting, regu-

1 See Majone 1994; 1996; 1997, the special issues of *Current Politics and Economics of Europe* 9(4), 2000 and the special issues of the *Journal of European Public Policy* 9(6), 2002. Michael Moran (2002) provides a helpful review of this discussion.

latory instruments or regulatory institutions. Corporate governance systems, on the other hand, are core elements of a *domestic political economy* and link up closely with domestic market structures, with the organization of firms or with types of bank–firm relations. In other words, corporate governance systems are deeply embedded in the underlying make-up of a domestic political economy and are, for reasons of "institutional stickiness" and complementary linkages with other subsets of the political economy, probably more resistant to change.[2] Michel Goyer, for instance, argues that cross-national differences in the pattern of change in corporate governance systems can also be traced back to the organization of the workplace, which provides management with different constraints and opportunities to pursue the business strategy of the firm (Goyer 2002).

A further key to explaining varying degrees of institutional convergence, I find, is to know how change comes about. Domestic restructuring can be either largely market-driven or politically mediated. In the past, reforms of stock exchange regulation, for instance, were to a large extent shaped by regulatory competition between states which adopted the U.S. model of stock exchange regulation primarily to compete more successfully for institutional investors. Thus, market pressures did not leave states or investment banks with much leeway to influence the direction of institutional change and ultimately caused a relatively high degree of institutional convergence (Lütz 1998). In the case of banking, regulatory reform was much more politically mediated, simply because reform efforts were crisis-driven and reflected the interests of states and central banks in reducing possible competitive disadvantages through multilateral coordination. Corporate governance reforms in Europe exemplifies the case with the highest degree of political involvement. Especially in countries with a protective regulatory structure and limited market-based competition, such as Italy, Spain and France, reforms were advanced by public officials, very often in the face of resistance from market actors. Furthermore, restructuring in Europe was not driven by market pressures since there is no compelling relationship between a firm's ability to raise equity finance and the nature of its management structure (Deeg / Perez 2000: 145). In Germany, reforms were highly politicized and, in contrast to other areas of finance, deeply contested between the Social Democratic Party (SPD) and the Christian Democratic Union (CDU), as discussions on company disclosure, management accountability, the power of banks, network dissolution and takeover regulation reveal (Höpner 2003).

The financial sector is often considered to be unique since financial services have for a long time provided an infrastructure for other sectors of the political economy (Cerny 1993), even for those formerly nationalized industries, such as tele-

2 These issues are well discussed in the institutionalist literature and in the "varieties of capitalism approach" (see Thelen 1999; Hall / Soskice 2001).

communications, electricity or railways, which have been regarded as being infrastructures themselves. Due to deregulation and the privatization of state industries, however, these sectors are supposed to become "commodified," a process that would bring market relations closer to the increasingly short-term, arm's-length and risk-averse relationships that have already evolved on international financial markets. The making of markets has been accompanied by new rules ending monopolies and regulating competition, and by the creation of specialized regulatory agencies which are seen to provide the basis for the "rise of the regulatory state in Europe" (Majone 1994, 1996). The crucial issue currently debated among Europeanists is whether or not nations have already converged on a single European model of regulation, as the proponents of the regulatory state hypothesis suggest (Majone 1997: 148).

A brief, comparative look at the *outcomes* of regulatory restructuring confirms the mixed pattern of "convergence within diversity" that we find in the case of banking. Independent regulatory agencies (IRAs), which were rare in Europe until the late twentieth century, emerged increasingly in the 1980s and 1990s, especially for utilities. IRAs were created to approve or block mergers, to issue and enforce licenses, and to regulate prices and market access. As non-majoritarian institutions specialized in regulation, the newly founded agencies shared features like low party politicization, separation from regulatees and relatively open decision-making processes (Thatcher 2002b). However, IRAs have not spread evenly across countries and domains. Germany has fewer IRAs than Britain, which is probably due to the hierarchical German administrative structure and tradition (Czada / Lütz 2003). The behavior of IRAs differs across nations: Britain has a much stronger "revolving door" between agencies and the private sector than Italy, France and Germany, while Italy has greater party politicization of appointments to IRAs (Thatcher 2002a, 2002c). Features of regulation and the balance between generic and sector-specific rules vary across sectors. In telecommunications, we see not only a mass of re-regulatory rules covering aspects from interconnection to tariffs but also strong national IRAs, whereas, in electricity, regulatory powers are distributed between agencies, competition authorities and, in countries such as Austria or Germany, sector-specific industry regulators with powers to self-regulate ex ante the prices and conditions charged by the transmission system operators (Eberlein 2000: 415).

As to the *driving forces* of regulatory restructuring, we see apparent differences in utilities to the situation we have found in finance. Restructuring in finance, either of regulatory frameworks or of corporate governance patterns, responds more or less to issues linked to financial globalization, that is, the rise of institutional investors, increasing capital mobility or financial crises. Domestic responses to these global pressures have been mediated either by market-like regulatory competition between states, by politically induced multilateralism or by purely na-

tional political strategies.[3] In the utilities, however, regulatory change has mostly been politically mediated. It is only in telecommunications that transformation has also been driven by increasingly intense global competition, by technological possibilities and the potential profits, spurred on by U.S. deregulation in the 1970s and early 1980s. However, EU decisions have played a crucial intermediary role in transmitting, channeling, and amplifying global pressures, and in structuring the resulting regulatory systems of most member states (Schneider 2001; S. Schmidt 1998). In electricity, market pressures have not been much of a factor, given that there was little direct pressure from globalization in a sector with few technological changes and little competition in highly protected markets. Not surprisingly, the EU Commission was the principal instigator for reform and EU decision-making was crucial in persuading member states to accept changes which, for some, went completely against their policy legacies and preferences. Policy adjustment to Europeanization is shaped by the interplay of the European and the national level and, as Vivien Schmidt argues, strongly mediated by institutional factors (existence or absence of domestic veto points), policy legacies, policy preferences and discourses (V. Schmidt 2002: 899).

8 Conclusion

What general lessons can we learn from the cases examined here? First, the "convergence within diversity" perspective covers a substantial range of reform outcomes induced by either global or European pressures; hence both globalization and Europeanization studies could possibly benefit from this line of thinking. Second, comparative institutionalism or comparative political economy approaches seem to be crucial for the study of either globalization or Europeanization effects, and, in all of our cases, national or sectoral institutional frameworks have mediated domestic responses to global or European pressures to a greater or lesser extent. Third, linkages of comparative approaches with either an "international relations" or an "international political economy" framework proved to be helpful in explaining regulatory change induced by financial globalization: convergence on certain "hegemonic regulatory models" was due to interdependent and not to autonomous patterns of domestic responses. The same holds basically true for regulatory reforms in the European utilities; here, the interaction of supranational entrepreneurship or intergovernmental coordination with domestic action is obviously a key to explaining national adaptation processes.

3 The internationalization of regulatory reform and the driving forces of regulatory diffusion are systematically discussed in the book project of Jordana / Levi-Faur / Vogel. See also Wilson (2003) for a discussion of the mechanisms of policy transfer in regulation.

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