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# PARADIGM SHIFT OR GROUNDHOG DAY?

THE PUBLIC DEBATE ON POST-CRISIS BANKING REGULATION IN THE  
UNITED KINGDOM

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MASTER THESIS

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## **Statutory Declaration**

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**Name: Katja Philipps**

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A handwritten signature in black ink, reading 'Katja Philipps'. The signature is written in a cursive style with a large, looped 'K' and a long, sweeping underline.

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## List of Abbreviations

ACF	Advocacy Coalition Framework
AFME	Association for Financial Markets in Europe
BoE	Bank of England
CBI	Confederation of British Industry
cf.	confer
CGS	Credit Guarantee Scheme
CW	Calendar week
EEA	European Economic Area
e.g.	exempli gratia (for example)
EU	European Union
FAT	Financial Activities Tax
FCA	Financial Conduct Authority
FPC	Financial Policy Committee
FSA	Financial Services Authority
FSC	Financial Stability Contribution
FT	Financial Times
HM Treasury	Her Majesty's Treasury
IMF	International Monetary Fund
OFGAS	Office of Gas Supply, now Office of Gas and Electricity Markets (Ofgem)
PRA	Prudential Regulation Authority
RBS	Royal Bank of Scotland
SME	Small and medium enterprises
SRR	Special Resolution Regime
UK	United Kingdom
UKFI	United Kingdom Financial Investments

## 1. Introduction

The United Kingdom (UK) has been at the epicentre of the global financial crisis erupting in 2007. The City of London's global interconnectedness as well as the long-established culture of regulatory self-independence that had governed the financial industry for decades triggered a near meltdown in the British banking system in late 2008 and the country's first recession in 17 years. Next to the immediate consequences for depositors and the British economy as a whole, the financial crisis led to a fundamental change of direction in national economic policies and destabilized a system of politics that had governed financial regulation in the UK for over two decades (cf. Johal, Moran & Williams 2012). In 1979, the Thatcher administration replaced the decaying manufacturing industry with a finance-led service sector and hence made the City of London the centrepiece of a self-ruling world based on the principles of privatisation and deregulation. During the following period of economic boom stretching from 1986 to the outbreak of the financial crisis in 2007, the British banking sector was commonly pictured as 'the goose laying the golden eggs' (Haldane 2009:1). The banking crash in September 2007, however, destroyed the illusion that an economic system which relied on light-touch financial regulation to promote the international competitiveness of the City was competent at the job of securing financial stability. The scale and prolonged effects of the financial crisis provided the central backdrop to the general election in May 2010.<sup>1</sup> Being no longer able to rely on uninterrupted economic progress, the governing Labour party was forced to compete with the Conservatives over a new regulatory regime that could prevent the British economy from drowning in a recession (cf. Johal, Moran & Williams 2011).

The financial crisis spurred ad-hoc policy responses around the globe and energized efforts to strengthen financial supervision in the affected countries. Due to the City of London's key position as a leading global financial centre, the regulatory reforms that were initiated by the change of government in May 2010 have attracted a lot of interest in professional circles and hence been chosen as central object of investigation for this thesis. However, instead of focusing solely on the change of policy in financial supervision, the thesis will analyse the developments in the public debate on post-crisis banking regulation that has accompanied the general election in 2010. The reason for this approach is the following: in democratic societies, politicians ultimately depend on the goodwill of

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<sup>1</sup> The United Kingdom general election of 2010 was held on Thursday 6 May 2010 and resulted in a hung parliament where no party was able to command a majority in the House of Commons. The heretofore governing Labour party gained 29% of votes and lost 6.2% compared to the previous election. The Conservative party under David Cameron won the largest number of votes (36.1%) but still fell twenty seats short. The party eventually entered a coalition with the Liberal Democrat party which emerged as the third-strongest party from the election (23.0%). The coalition government was the first one in British history to eventuate directly from an election outcome. For more detailed information see: <http://news.bbc.co.uk/2/shared/election2010/results/> (last accessed July 9, 2010)

the electorate. The public opinion is the determinant factor for the ability to win elections – hence politicians must be concerned with the mobilisation of support for their respective electoral programs which are usually backed by a particular ideological leitmotif. The near collapse of the global banking system, however, destroyed the public confidence in governmental capacities to cope with the effects of the financial crisis. As a result, the challenge governments are facing today is not only to find more effective economic policies but to articulate moral visions – new leitmotifs – capable of restoring their legitimacy in difficult times. In the British context, the search for a new legitimizing narrative to restore public confidence in the state as well as market power characterised the electoral campaign of all three major parties. Therefore, the aim of this thesis is to investigate how the change of government in May 2010 has been perceived by the public and whether a potential replacement of the pre-crisis consensus on the need for a light-touch regulatory regime in favour of a new leitmotif in banking regulation has been the subject of public debate. The research question is as follows:

*Did the change of government in May 2010 initiate a fundamental shift in the public debate on banking regulation in the United Kingdom?*

The thesis will start with a brief presentation of the case study: what role has the City of London played in British economic policy during the previous decades and in how far has that role changed after the outbreak of the financial crisis? The literature for this chapter focused on post-crisis institutional change in financial market regulation with a special focus on the United Kingdom. The most recent work in this regard is an article published by Johal, Moran and Williams in 2012: 'Post-Crisis Financial Regulation in Britain'.<sup>2</sup> The authors provide a detailed overview of the historical legacy of the City, the pre-crisis institutional set-up as well as the present state of regulatory change (as of September 2011) in the UK. The article, together with earlier publications by Johal, Moran and Williams<sup>3</sup> served as background information for this thesis and was a starting point for further research on current regulatory changes in British banking supervision.

Due to the clear focus on the domestic level, both the international and cross-border perspective in terms of financial stability and reform have been largely neglected. Only exception is the work of Quaglia (2011) who places the issue of post-crisis financial regulation in the UK in a broader context by asking whether the British bank rescue plan announced in 2008 was pacesetting for the adoption of similar plans across the European Union (EU). The article has added value for the thesis in so far as it gives a clearly structured overview of a central aspect of crisis

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<sup>2</sup> Published in: Mayntz, Renate (ed.): Crisis and Control. Institutional Change in Financial Market Regulation. Frankfurt a.M. 2012: Campus, 67-95

<sup>3</sup> See for example Johal, Sukhdev/ Moran, Michael/ Williams, Karel (2011): The Financial Crisis and its Consequences. In: Nicholas Allen, John Bartle (ed.): Britain at the Polls 2010. London: Sage, 89-119; or in cooperation with Froud and Nilsson: Froud, Julie/ Moran, Michael/ Nilsson, Adriana/Williams, Karel (2010): Wasting a Crisis? Democracy and Markets in Britain after 2007. The Political Quarterly 8, pp. 98-119

management conducted by the Labour party and hence facilitates the later textual classification of the empirical data.

All of the above-mentioned articles are used as a measuring stick against which the findings of the empirical part of the thesis can be categorized. The articles do not provide straightforward answers to the research question but give an overview of the pre-crisis institutional patterns that governed financial market regulation in the UK as well as the most important aspects of crisis management conducted by the Labour party. Since the thesis concentrates on a potential shift in the public perception of banking regulation after the change of government in 2010, such a measuring stick is essential in order to classify the findings.

The theoretical framework of the thesis (chapter 3) is based to a large extent on the assumptions of Peter A. Hall, a Canadian political scientist who emphasizes the role of economic ideas in the policy-making process and argues that politicians operate within an interpretative framework of ideas and standards that guide their actions and specify their goals (cf. Hall 1993). The idea to focus on the public debate on post-crisis banking regulation in order to locate the underlying leitmotifs that are able to mobilise support for a policy-change was significantly inspired by Hall's volume 'The Political Power of Economic Ideas: Keynesianism Across Nations' which he edited in 1989. By using three different approaches (state-centred, economist-centred, coalition-centred), Hall examined in how far economic ideas are able to have an influence over policy-making and which actors and institutional configurations impede or facilitate the entry of innovative ideas into policy. The main assumptions of all three approaches have been adapted to the particular research interest of this thesis and provide the theoretical foundation for the empirical analysis. Hall's case study on economic policy-making in the UK<sup>4</sup> in which he described the media as 'outside marketplace for economic ideas' provided additional significant input for the thesis: the assumption that the struggle to find a new leitmotif for banking regulation was a 'society-wide affair, mediated by the press, deeply imbricated with electoral competition, and fought in the public arena' (1993:287) provided the rationale to conduct a media analysis in order to investigate the public debate on post-crisis banking regulation that accompanied the general election in 2010. Finally, one of Hall's latest publications<sup>5</sup> in which he discussed different types of policy response to the financial crisis built the bridge between the importance of economic ideas in the policy-making process and the challenge governments are facing today in the light of the financial crisis: Hall argues that since the narratives of the past no longer suffice, governments have to find new legitimizing leitmotifs for their role in the economy (cf. 2010:8). As

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<sup>4</sup> Hall, Peter (1993): Policy Paradigms, Social Learning, and the State – The Case of Economic Policymaking in Britain. *Comparative Politics*, Vol. 25, No. 3, pp. 275-96

<sup>5</sup> Hall, Peter (2010): The Significance of Politics. In: Hemerijck, Anton/Knapen, Ben/van Doorne, Ellen (eds.): *Aftershocks: Economic Crisis and Institutional Choice*. Amsterdam University Press

outlined above, this assumption essentially summarizes the research interest of this thesis.

The fourth chapter will outline the research methodology, including the general research approach (media analysis), case selection, and the system of categories used for the measurement of variables. In this regard, the literature concentrated on unobtrusive research methods, especially content analyses. Information on the theoretical foundations, conceptualization and implementation of content analyses in general have been derived to a large extent from classical works of communication science (e.g. Früh 2007; Merten 1995; Altheide 1996) as well as Raupp and Vogelsang (2009) who focus explicitly on the information processing role of the media in societies and thus provided insight into the conceptualization of media analysis in particular. However, none of the above-mentioned publications directly apply content analyses to a specific political context – the adaptation of the media analysis to the specific research interest of this thesis was conducted independently.<sup>6</sup>

Chapter 5 contains the data evaluation which will systematically examine the results of the media analysis according to the theoretical expectations formulated in chapter 3 and aims at answering the question whether the news coverage on post-crisis banking regulation (independent variable) can actually be regarded as an explanation for a possible paradigm shift in the public debate on this topic (dependent variable). The data evaluation is accompanied by a document-based analysis of the actual regulatory reforms that have taken place after the coalition government came into power in May 2010 (chapter 6). This step serves to put the findings of the previous media analysis into perspective and thus to demonstrate the impact of the independent variable on the political reality of financial regulation in the United Kingdom. The subsequent chapter 7 will summarize the main findings of the empirical analysis, provide the answer to the research question and discuss its implications. Additionally, the chapter will point out the limitations of the empirical evidence and briefly discuss in how far the findings of the thesis could be located in a broader research context.

## **2. The Case – British Economic Policy and the City of London**

When industrialized capitalism reached its zenith in the nineteenth century, the City of London was already an established power in the world financial markets. Due to the supremacy of the British Empire, the City became the centrepiece of the world economy in which most of the trade was conducted in sterling and in which Britain owned an enormous range of foreign assets (cf. Coggan 2002). Deeply integrated

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<sup>6</sup> Additional input was derived from comparable case studies on electoral campaign coverage or political reporting in general. Particularly worth mentioning are Wilke & Reinemann's long-term study of campaign coverage in the German press (2001) as well as various publications by Gerhards, Offerhaus & Roose on 'The European Union and the Attribution of Responsibility in the Mass Media' (2004, 2006, 2007, 2009).



into ruling democratic elites, the City developed and prospered around a distinctive regulatory ideology:

*'[...] financial markets were delicate and complex mechanisms which could not be effectively ruled by anything as rigid as law, and which could only be controlled by the development of cultures of discipline in the markets, and by the independent organisation of those markets' (Moran 1981, as quoted in Johal et al. 2012:68).*

Although the two world wars ended Britain's financial predominance and transformed the regulatory ambitions and resources of the state, until the outbreak of the financial crisis in 2007 the City largely succeeded in maintaining its system of regulatory self-independence and consolidated its dominance as an international financial centre concentrating on wholesale finance.

The aim of this chapter is to briefly outline the different schools of thought that have governed the British economy – and thus the City of London – throughout the previous decades. The focus is on the Conservative era between 1979 and 1997 and the years of the Labour government between 1997 and 2010. The chapter will reveal that understanding the economic policy outcomes in the UK requires an understanding of the structural character of the financial system in which economic and political forces are highly interconnected.

## **2.1 Patterns of British Economic Policy – The Conservative Experiment of Margaret Thatcher**

Economic and political forces are deeply interconnected: 'the significance of economic developments cannot be understood separately from the political context that brackets them' (Hall 2010:1). Historically, the post-war period after the Second World War was marked by two distinct economic schools of thought: the Keynesian welfare state and a neoliberal economic policy which was introduced by Margaret Thatcher in 1979 and lasted until the outbreak of the financial crisis in 2007. It has to be kept in mind that the economic ideas of Keynesian demand management which the Labour party adopted in the 1950s were to become the party's ideological leitmotif for the next 30 years. However, due to the limited scope of this thesis, the chapter will solely focus on contrasting the economic paradigm which the Conservative party adopted in 1979 with Labour's economic policy during its term of office between 1997 and 2010.

In the 1970s, low rates of economic growth combined with high rates of unemployment severely challenged the hitherto uncontested Keynesian school of thought based on the idea of aggregate demand management. Together with an increasing competition in increasingly globalised international markets and the declining political salience of the class conflict between capital and labour, these developments eventually terminated the Keynesian consensus that had underpinned British economic policy-making since the Second World War and opened the door for the conservative experiment of Margaret Thatcher. The party's

approach combined 'a political critique of growing state intervention based on theories of political overload with an economic critique of Keynesianism founded on monetarist conceptions of the economy' (Thatcher 1980, as quoted in Hall 1986:100). The monetarist policy was based on the assumption that the British state had grown too large. Therefore, public expenditures and the scale of government activity had to be reduced to make room for reductions in taxation.

After the City of London had experienced comparatively hard times during the years of Labour government, it rose to new heights under Margaret Thatcher: far reaching privatisation measures shifted whole industries out of the domain of the public into the realm of the markets and were accompanied with a wide programme of deregulation which shifted control over economic life from public institutions to the private sector (cf. Froud, Moran, Nilsson & Williams 2010). These changes accelerated in the 1980s when the globalisation of financial markets intensified the competitiveness of financial centres and culminated in the 'Big Bang' of 1986: the sudden deregulation of financial markets in the UK, in order to secure the City of London's position as leading global financial centre. The policy measures of the Thatcher government initiated a period of economic boom in the UK that stretched from the early 1990s to the outbreak of the financial crisis in 2007 and was based on the narrative that the country was creating a new economy based on post-industrial sectors with a finance-led service industry (cf. Johal et al. 2012). London's comparative advantage as a global financial centre became the overall aim of economic policy-making and was constantly evoked by the financial elite and its political allies who kept on emphasizing the central role of finance in creating employment in a post-industrial economy.

## **2.2 Labour's Ideological Change of Course**

When Labour came into power in the middle of an economic boom in May 1997, it saw little reason to change the successful economic project initiated by the Conservative party almost 20 years ago. Instead of relying on its traditional Keynesian-inspired ideology, Labour affirmed its predecessor's commitment to light-touch financial regulation and implemented a series of high-profile institutional reforms like granting operational control of monetary policy to the Bank of England (BoE) and creating a single financial regulator, the Financial Services Authority (FSA).<sup>7</sup> The FSA inherited both the BoE's historic responsibility for bank supervision and the responsibilities of the Securities and Investment Board which was created in 1986 to oversee a complex system of self-regulatory organisations that covered the main city markets. The potential power of a single financial regulator was limited by three central aspects (cf. Johal et al. 2012): the FSA was paid for by a levy on the markets, it was located in the City rather than in

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<sup>7</sup> The legislative foundation for these institutional changes is the Financial Services and Markets Act (2000). The complete document can be found here: [http://www.legislation.gov.uk/ukpga/2000/8/pdfs/ukpga\\_20000008\\_en.pdf](http://www.legislation.gov.uk/ukpga/2000/8/pdfs/ukpga_20000008_en.pdf) (last accessed July 6, 2013)

the government quarter and it recruited its staff from the City itself instead from the civil service. Hence the FSA was always conceived of as 'the property of the markets' (Johal et al. 2012:71) and became the centrepiece of a regulatory system which collapsed dramatically after the outbreak of the financial crisis in 2007.

Froud et al. (2010:26) argue that the institutional changes introduced by the Labour government amounted to a kind of 'naturalization of financial markets, in a world where public policy and institutions had to accommodate to the play of market forces.' The banking crash in September 2007, however, destroyed the illusion that an economic system which relied on light-touch financial regulation to promote the international competitiveness of the City was competent at the job of securing financial stability. One of the immediate effects of the crisis was hence the 'repoliticisation of financial regulation' (Froud et al. 2010:27): the issue suddenly was of the highest priority for the Prime Minister and Chancellor<sup>8</sup> and soon moved the stability of single financial institutions as well as the macro-stability of the whole banking system on top of the political agenda. The degree of exposure of the City of London to the financial crisis forced the government to adopt a far-reaching banking rescue plan in October 2008 which focused on the protection of retail depositors and was articulated on four key points (HM Treasury 2009:4f.):

- making £200bn available under the Bank of England's Special Liquidity Scheme (SLS), allowing institutions to swap their pre-existing assets (which had become illiquid) for Treasury bills over a three-year period;
- establishing a Credit Guarantee Scheme (CGS) of up to £250bn, to provide banks with a guaranteed source of funding, and hence improve the flow of credit to the economy;
- setting up a £50bn Bank Recapitalisation Fund to make capital available to eligible banks and building societies, taken up by Royal Bank of Scotland (RBS), Lloyds TSB and HBOS<sup>9</sup>;
- offering capital protection for banks through the Asset Protection Scheme, which provides government protection against future credit losses on certain assets, in exchange for a fee, to support the banks and allow them to continue making loans to creditworthy businesses and households.

Another immediate act of crisis management conducted by the Labour government was to abolish the clear separation between the roles of democratically

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<sup>8</sup> At that time Gordon Brown and Alistair Darling

<sup>9</sup> In November 2008, the authorities were obliged to establish United Kingdom Financial Investments (UKFI) as a vehicle for managing the government's shareholdings in The Royal Bank of Scotland Group plc. and Lloyds Banking Group plc. UKFI's overarching objective is to manage these shareholdings commercially to create and protect value for the taxpayer as shareholder and to devise and execute a strategy for realising value for the Government's investments in an orderly and active way over time within the context of protecting and creating value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and acting in a way that promotes competition. <http://www.ukfi.co.uk/about-us/what-we-do/> (last accessed June 19, 2013)

elected politicians and financial regulators – one of the key principles of the system for governing markets that had evolved in the decades after 1979 (cf. Froud et al. 2010). In the aftermath of the banking crash in 2007, the industry had to turn to the democratic state for the resources and authority to prevent systemic collapse; the government, on the other hand, had to rely on the expertise and specific knowledge of the financial elite due to the complexities of crisis management.

Despite the prompt and innovative measures that were taken in the immediate aftermath of the crisis, the White Paper of July 2009 which outlined the Treasury's proposals for reforming the institutional architecture of banking regulation in the UK made clear that the Labour government was not ready to abandon its benign attitude to the financial markets. On the contrary, the government reasserted the traditional narrative about the key role of the financial sector in a post-industrial economy and rejected any fundamental restructuring of the industry. The proposals outlined in the White Paper were hence formulated very cautiously:

- Capital requirements were linked to the size and complexity of a firm but any proposals to break up large, complex banking conglomerates and separate investment and retail banking were rejected;
- The FSA's dominant position as a regulator was retained and only complemented by the creation of a statute-based Council for Financial Stability;
- The public ownership of the banking system acquired in the crisis was said to be only a transitional stage and not the prelude for any long-term reshaping of the banking system.<sup>10</sup>

### 3. Theoretical Framework – Ideas in the Economic Policy-Making Process

*'The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood.'*<sup>11</sup>

As previously mentioned, the theoretical framework of this thesis is based to a large extent on the assumptions of Peter A. Hall who places ideas at the centre of the economic policy-making process. In his work 'The Political Power of Economic Ideas: Keynesianism across Nations' (1989), Hall focused on the question whether and to what extent economic ideas are able to influence public policy. In a later publication, the author linked the concept of ideas to policy-making as a process of social learning which he defines as a 'deliberate attempt to adjust the goals or techniques of policy in response to past experiences and new information' (Hall

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<sup>10</sup> The three aspects are only an excerpt taken from the White Paper which comprises 176 pages in total. The complete document can be found here:

<http://www.official-documents.gov.uk/document/cm76/7667/7667.pdf> (last accessed July 6, 2013)

<sup>11</sup> John Maynard Keynes (1936): *The General Theory of Employment, Interest and Money*. London: Macmillan as quoted in Hall (1989:3).

1993:278). Learning is thus indicated when policy changes are the result of such a process.

For Hall, the concept of social learning implies that ideas are a central feature of the policy-making process. Based on the observation of Anderson (1978) that 'the deliberation of public policy takes place within a realm of discourse'<sup>12</sup>, Hall argues that

*'policy-makers usually work within a framework of ideas and standards that specifies not only the goals and instruments of policy-making, but also the very nature of the problems they are meant to be addressing' (Hall 1993:279).*

The following chapter will take Hall's assumption of policy-makers operating within an interpretative framework (to which he refers to as 'policy paradigm') as a starting point for the theoretical framework of this thesis. Starting from a general perspective, the first section will outline in how far ideas are able to influence the policy-making process by contrasting state-centric against pluralist views and explaining which actors and institutional parameters are involved in this process. The subsequent section will outline how the media fit into this context and what role they play in shaping the public debate. Proceeding from a relatively abstract general framework to specific hypotheses, the section will conclude with the formulation of five sub-questions which will guide and structure the media analysis of the news coverage on post-crisis banking regulation in the UK.

### **3.1 Who Influences the Policy-Making Process? – State-Centric vs. Pluralist Views**

In his case study on economic policy-making in Britain, Hall (1993) relied heavily on theories of the state which argue that

*'the state, broadly understood as the executive, legislative, judicial apparatus of the nation, has an important impact of its own on the nature of public policy and considerable independence from organised social interests and the electoral coalitions that might otherwise be said to drive policy' (Hall 1993:275).*

State-centric approaches are based on the assumption that the entrance of new economic ideas in the political decision-making process is influenced by the institutional configuration of the state and its prior experience with related policies: states will usually be predisposed towards policies with which they already have some favourable experience. When following this line of argumentation, the process of social learning is limited to a dimension of policy-making that confirms the autonomy of the state from external societal pressure. Although it is undeniable

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<sup>12</sup> Anderson, Charles (1978): The Logic of Public Problems: Evaluation in Comparative Policy Research. In: Ashford, Douglas (ed.): Comparing Public Policies (Beverly Hills: Sage) as quoted in Hall (1993).

that the institutional arrangements for policy-making<sup>13</sup> play a critical role in impeding or facilitating the entry of innovative ideas into policy, the thesis is based on the assumption that any theory that is capable of explaining economic policies must be grounded in a broader view of the general determinants of state action (cf. Hall 1986). Thus, the theoretical framework is not limited to a purely state-centric view but takes into consideration pluralist assumptions as well. In how far can other political variables like electoral competition, societal pressure from interest groups or expert advice from professional economists influence the outcome of economic policy-making?

Contrary to state-centric views, the economist centred-approach (cf. Hall 1989) suggests that economic ideas can have a persuasiveness, and hence a political dynamism, of their own if they have advocates (economic professionals, epistemic communities, etc.) who are able to make their views known within the government. This precondition indicates that the impact of expert advice on economic policy depends heavily on the institutional parameters mentioned above 'that structure communication within the economics profession and between economists and policy-makers' (Hall 1989:9): how open are public authorities to external advice from professional economists? Does a large and sophisticated body of academic professionals exist in the first place? How much influence do professional economists, as opposed to civil servants, have inside the administrative apparatus of the government?

The economist-centred approach stresses the role of professional experts and focuses on the quality of ideas themselves. However, for ideas to have an actual influence over policy-making, they must mobilise support among broader coalitions of societal groups on whose votes elected politicians ultimately depend. The coalition-centred approach (cf. Hall 1989) brings politicians and societal groups more directly into the explanation of policy and is based on the assumption that economic policies derive from the interaction of several sets of societal actors. In democratic societies, policy-making does not occur within a shielded black box in which public officials operate completely independent from external pressure. A major source of power involves the ability to win elections; hence politicians must be concerned with the mobilisation of support for their respective electoral programs. The political system needs to be understood as a network of political parties and interest intermediaries that seek to influence policy (cf. Hall 1986).

The Advocacy Coalition Framework (ACF) developed by Sabatier and Weible (2007) provides additional insight in this context because it succeeds in bridging the assumptions of both the economist- and coalition-centred-approach: the ACF assumes that policy-making in modern societies is so complex that participants

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<sup>13</sup> Institutional arrangements include patterns of recruitment to administrative posts, hierarchical patterns of authority that could influence the information flow within individual bureaucracies, or the bureaucratic capacities of states to implement new programs quickly and efficiently (cf. Hall 1989).

must specialize in a given policy subsystem in order to be influential. Thus, according to Sabatier and Weible (2007:196) policy-making occurs among the so-called 'iron triangle' including legislators, agency officials and interest group leaders as well as specialised professionals (university scientists, epistemic communities, etc.) who provide scientific and technical information and are thus among the central players in a policy process. Each of these actors has particular interests and is motivated to translate those interests into actual policy. With regard to economic policy-making in the UK, this assumption seems especially valid because of the significant influence the City of London and its financial experts exert on the government. As outlined in the previous chapter, the financial industry traditionally has leverage over British economic policy due to its vital role in creating employment in a post-industrial economy. There is also the fact that in recent decades, the financial elite has systematically reorganized and professionalized its lobbying operations to convert its economic power into actual influence over policy-making – a fact that is also reflected in the relationship between the City and the Conservative party: when David Cameron became Conservative leader in 2005, the financial services industry was the source of just under a quarter of total cash donations to the party; by 2010 the figure had risen to just over 50 per cent (cf. Johal et al. 2012, quoting the Bureau of Investigative Journalism 2011). Hence especially in the British context Hall's statement is true when he argues that 'no government can operate effectively in a [...] capitalist polity without the support of a substantial portion of owners and managers of business' (1989:96).

The thesis is thus based on the assumption that the British state and society cannot be analysed as separate spheres. As Hall (1989:13) argues: 'Politics is ultimately about the conflict among groups with divergent interests for claims on scarce resources.' The role of economic professionals and interest groups (especially the financial industry) in shaping the economic policy-making process has already been briefly discussed. A third and significant political variable is the electoral competition between political parties which are 'the agents of collective purpose in a democracy' (Beer 1969, as quoted in Hall 1986:91). Political parties transform the multiple claims and demands of societal groups into concrete programs backed by a particular moral vision which is rooted in longstanding partisan sentiments. Until the 1950s, the Labour party continued to stand by its long-time economic platform of nationalization and planning before power within the party gradually shifted toward those who argued that a 'socialist economic policy could be built around Keynesian demand management rather than further nationalization' (Crosland 1956, as quoted in Hall 1986:71) – an economic idea that were to dominate Labour for the next 30 years. The new economic policy was organized along a deepening class cleavage between capital and labour which deeply characterised the party system as a whole: Labour emerged as the opponent of the main business-friendly party, the Conservatives, whose laissez-faire ideology traditionally favoured the City of London.

In terms of economic policy, the two main British parties have thus traditionally offered the electorate a choice – a fact that has been severely challenged during the 2010 general election. When Labour came to power in the middle of an economic boom in May 1997, the party saw no reason to break with the successful economic project initiated by the Conservatives two decades ago. Instead, Labour adopted the narrative of the vital role of the City for the British economy and thus largely assumed the traditional Conservative ideology. Hence in 2010, the Conservatives had to adopt a far more radical position in terms of regulatory change than the traditional party ideology would have suggested in order to distance themselves from the governing Labour party. The effects of the electoral competition on economic policy-making will be discussed in detail in chapters 5 and 6.

### **3.2 The Media as Marketplace for Economic Ideas**

How do the media fit into this context? Hall's reference to ideas as interpretative frameworks in which policy-makers operate underlines the importance of developments in the realm of political discourse: policy innovation depends on the availability of new ideas that are able to provide the rationale for policy departures (cf. Hall 1989). The thesis is based on the assumption that the media are a key figure when it comes to the public debate about economic issues between politicians and societal groups. Hall (1993:286) describes them as a 'marketplace for economic ideas' outside the state: acting as an intermediary between the state and society in democratic polities, the press shapes and influences public debate by selecting and placing selected topics on the public agenda, commenting on these issues and giving external actors who transmit societal demands (political parties, economic actors, etc.) a forum to express their opinion. In this way, the media determine the issues of which the public is aware of and discusses about: 'the mass media set the agenda for each political campaign, influencing the salience of attitudes towards the political issue' (McCombs & Shaw 1972:177).

As already mentioned in the introduction, the aim of this thesis is not to investigate directly the policy change in post-crisis banking regulation in the UK – for this purpose it would have been much more straightforward to look at white papers and parliamentary debates directly.<sup>14</sup> Instead, the focus is explicitly on the public debate on post-crisis banking regulation in order to locate the underlying ideas and leitmotifs that are able to mobilise support for a policy change. In acknowledgement of the important role the media play in shaping the public debate, the thesis will use a discourse analysis of the news coverage on the 2010 general election to investigate and explain the shape of the debate on post-crisis

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<sup>14</sup> Although the media analysis constitutes the main empirical part of the thesis, a subsequent step will include a document-based depiction of the actual regulatory reforms that have taken place in the area of banking regulation after the general election. This step serves to demonstrate the impact of the independent variable and to verify the results of the analysis with regard to the research question. The approach will be outlined in more detail in the following chapter.



banking regulation in the UK. The research question stated in the introduction of the thesis is hence further specified as follows:

*How has the public debate on post-crisis banking regulation been depicted in British newspapers during the news coverage of the 2010 general election?*

Why do ideas play such a fundamental role in economic policy-making? Why is it important that governments operate within a framework of ideas and standards that specify the goals of policy and the instruments used to attain them? One answer is that economic policy-making must be understood as an essentially political process that is able to polarize members of society. Hall (1986:1) argues that 'the effects of economic policy alter the welfare of millions, and its making is a process deeply conditioned by broader struggles between competing parties, ideologies, and social classes.' In the British context, the near collapse of the banking system in late 2007 destroyed the public confidence in governmental capacities to cope with the effects of the financial crisis and consequently led to the erosion of the old neoliberal paradigm which had guided economic policy-making for more than three decades. The financial crisis produced a shock to economic orthodoxy that has the potential to pave the way for new economic ideas that could trigger a policy change. This assumption is backed by Sabatier and Weible (2007:198) who argue that policy change occurs either in response to new information or due to significant perturbations external to the policy subsystem which are able 'to shift agendas, focus public attention and attract the attention of key decision-making actors.'

The increasing public distrust in Labour's pre-crisis economic paradigm opened a competitive gap for the Conservative party and the Liberal Democrats. Making the public debate about the UK's future economic orientation (the future shape of banking regulation in particular) the object of electoral competition, both parties 'manoeuvred to stake out a distinctive position on institutional change in the 2010 general election' (Johal et al. 2012:79). All three major parties were confronted with the challenge not only to find more effective economic policies but also to articulate moral visions – new leitmotifs – capable of restoring their legitimacy in the aftermath of the financial crisis. Although the enthusiasm for competitive financial markets operating in a self-ruling world has declined among the public, 'a new era of optimism about what states can do will not necessarily follow' (Hall 2010:7) because citizens currently have as little faith in states as they have in the markets. This challenges the ideological platform of both Labour and the Conservative party: the financial crisis destroyed the Thatcher-era assumption that competitive markets automatically deliver services more efficiently than the government could do. At the same time, the crisis presents an existential challenge to traditional Labour thinking because the option of expanded government intervention is no longer available as the bail-out of banks such as Northern Rock has left the Treasury without significant resources for at least three to five years. Thus, the UK needs a whole new agenda of

policies and ideas which are able to supersede the old conflict between the state and the market.

### 3.3 Operationalization of the Research Question

The thesis focuses on the tripartite relationship between the state, societal groups and the media acting as intermediary between the former two. A central question in this context is: what impact do the media have on this relationship? Are they articulating ideas capable of mobilizing societal groups or simply expressing rational interests and calculations of both actors? In chapter 5, the concept of process tracing as a scientific method for studying causal mechanisms<sup>15</sup> will be used to systematically examine the results of the media analysis and to determine whether the news coverage (independent variable) can actually be regarded as a causal explanation for a possible paradigm shift in the public debate on banking regulation (dependent variable). The thesis is based on the assumption that the media analysis will reveal different focal points of the three main British parties regarding banking regulation and hence be able to answer the question whether the new government can be associated with new ideas and legitimizing narratives for regulating the British banking sector. Central for the thesis is hence to find indicators for a potential paradigm shift initiated by the general election: in how far has the news coverage changed before and after the election? How can this change be depicted? For this purpose various sub-questions have been formulated in order to structure the analysis:

- Q1: Which topics are emphasized by which newspapers? What were the main topics before and after the election (agenda-setting theory)?
- Q2: Which actors determined the public agenda (journalists/economic commentators, political parties, experts/epistemic communities...) before and after the election? Did the newspapers provide a forum especially for conservative, liberal, etc. actors?
- Q3: Which positions/contents were ascribed to the respective parties in the news coverage? What were their main arguments pro and contra banking regulation and have they changed after the election?
- Q4: Did the newspapers simply express the arguments of different actors or did they articulate additional ideas and arguments?
- Q5: Did the newspaper's political orientation influence the news coverage? How much space did the different newspapers dedicate to the topic before and after the election?

## 4. Research Methodology

The following section will outline the main features of content analysis and set out how the scientific method will be used to empirically analyse the five sub-questions

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<sup>15</sup> Collier (2011:823) defines process tracing as the 'systematic examination of diagnostic evidence selected and analysed in light of research question and hypotheses posed by the investigator.'

formulated in the previous chapter. The data evaluation in chapter 5 will eventually show whether the research strategy is suitable to demonstrate a valid relationship between the news coverage on post-crisis banking regulation (independent variable) and a possible paradigm shift in the public debate on this topic (dependent variable).

#### **4.1 Definition: Content Analysis as Empirical-Scientific Method**

According to Babbie (2010:357), content analysis is used to answer the classic questions of communications research: ‘Who says what, to whom, why, how, and with what effect?’ Therefore, content analysis can be defined as ‘an empirical method for the systematic, intersubjectively understandable description of content and formal features of texts, usually aiming at an interpretative inference to external facts and circumstances’ (Früh 2007:27). In an empirical-explanatory process, texts are systematically taken apart and assigned to different (pre-)defined categories. The selection of texts, their decomposition as well as categorisation depend on the specific research interest.

Empirical research is a social process. Thus, the social and cultural environments in which one operates as an investigator contribute to how one views research problems, data sources, and methodological approaches (cf. Altheide 1991). In order to minimize the influence of such external factors on the research results, every content analysis has to comply with the scientific criteria of intersubjective reliability and systematics. The former criterion is met when the research question, the general research approach as well as the collection and evaluation of data are openly documented by the researcher. That way analyses become reproducible: they can be verified by third parties and implemented again if necessary. The criterion of systematics is met when a clearly structured and documented approach is used to answer the research question, including the formulation of hypotheses, a reasonable case selection and the development of categories to measure the variables (cf. Früh 2007). To ensure that the results generated from the media analysis are valid and reliable, the before mentioned criteria have been taken into account as comprehensively as possible and are documented in detail in a codebook which can be found in the annex of the thesis.<sup>16</sup>

A central assumption of this thesis is the important role that mass media play in the functioning of modern democracies: the information function of press and broadcasting is a prerequisite for the formation of public opinion (cf. Raupp & Vogelsang 2009) and often the only contact many have with politics. McCombs and Shaw (1972:185) argue that ‘the media are the major primary sources of national political information; for most, mass media provide the best – and only – easily available approximation of ever-changing political realities.’ As outlined in the

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<sup>16</sup> Coding is the process of transforming raw data into a standardised form suitable for analysis (cf. Babbie 2010). Hence, the codebook specifies all survey steps, converts the research questions into variables and entails detailed instructions for the coder.

previous chapter, the thesis considers the media as mediator between voters and the actual political arena: by choosing and evaluating policy-relevant information, editors force public attention to certain issues, build up public figures images of political figures and generally exert a considerable influence on voters' judgement of what they consider to be the main thematic issues of a political campaign (cf. *ibid.*) Based on this argumentation, McCombs and Shaw formulated their agenda-setting theory, stating that 'the mass media set the agenda for each political campaign' (1972:177). This theory is one of the main reasons why a content analysis of the news coverage on the 2010 general election has been chosen as research methodology to investigate a possible shift in the public debate on post-crisis banking regulation in the UK.

It has to be noted, however, that there are certain limits to the explanatory power of content analyses. Analysing the content of a newspaper article may allow conclusions on the shape of the public debate about a certain issue, but not on the social – or in case of this thesis: political – reality in which the communicants operate. This is why Früh (2007:27) emphasizes the 'interpretative reference to external facts and circumstances', as mentioned at the beginning of this chapter: a media analysis as research strategy cannot be used to establish a direct connection between the news coverage on banking regulation and the actual policy reforms that have taken place in this area. For this purpose, a document-based examination of the actual regulatory reforms that were implemented by the government in the years after the general election will accompany the media analysis and hence meet the stipulation formulated by Merten (1995:351) that 'the impact of a text can never be determined on the basis of the text itself, but always have to consider an at least tripartite relationship between the text, the communicants, and the [political] reality in which they operate.'

## 4.2 Case Selection

The sample of the media analysis at hand is composed of articles published by four British national daily newspapers. The selection of newspapers was chosen deliberately in order to cover a broad spectrum of political allegiances and to depict the public debate about banking regulation as comprehensively as possible.

### The Guardian:

- One of the 'big three' British quality newspapers (together with The Times and The Daily Telegraph) owned by the Guardian Media Group;
- Published Monday to Saturday, the Sunday issue (The Observer) is not included in the sample;
- Average daily circulation of 196, 586 (February 2013)<sup>17</sup>;

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<sup>17</sup> All data regarding the daily circulation of the newspapers are derived from ABC's: National dailies, February 2013. <http://www.guardian.co.uk/media/table/2013/mar/08/abcs-national-newspapers> (last accessed June 4, 2013)

- Liberal to centre-left political allegiance with a readership largely split between Labour and Liberal Democrat voters; supported the Liberal Democrats during the 2010 general election (cf. BBC 2009).

#### **The Daily Mail:**

- Daily middle-market tabloid newspaper owned by the Daily Mail and General Trust;
- Only newspaper which was not available in print form for the analysis; instead it was only possible to gain access to the online archive via the newspaper's website;
- Average daily circulation of 1,829,266 (February 2013, second biggest British newspaper after The Sun);
- Right-leaning with traditional conservative values; traditional supporter of the Conservative party (cf. BBC 2009).

#### **The Financial Times:**

- One of the world's leading business news and information organisations owned by Pearson PLC;
- The sample includes the UK version of the newspaper as well as its Saturday edition called the Financial Times Weekend;
- Average daily circulation of 269,121 (February 2013, data refers to the UK edition of the paper only);
- Backed Margaret Thatcher's monetary policies during the 1980s but has aligned itself with the Labour party in 2001 and 2005; switched back to supporting the Conservative party in the general election 2010 for the first time since 1987 (cf. BBC 2009).

#### **The Times:**

- Published by News International, a wholly owned subsidiary of the News Corporation group headed by Rupert Murdoch;
- Sister paper, The Sunday Times, is not included in the sample;
- Average daily circulation of 393,814 (February 2013);
- Steadily supporting the Conservative party until 1997, then focusing on individual, primarily Eurosceptic, candidates; declared its support for the Labour government in 2001 and 2005 but turned again to the Conservative party in the run-up to the 2010 general election (cf. BBC 2009).

The investigation period covered April to June 2010, thus included the months immediately before, during and after the general election on 6 May 2010. The analysis involved the collection of data at different points in time (longitudinal study) which allows the observation of possible changes of a certain phenomenon over an extended period (cf. Babbie 2010). The central aim of the thesis is to find indicators for a potential paradigm shift in the public debate on banking regulation

initiated by the general election. Hence a longitudinal study was vital in order to allow statements about changes in the public debate before and after the election.

The original newspapers (except The Daily Mail) could be ordered on microfilm via the university library in Münster. The selection of newspapers indicates that the first stage of sampling was conducted by the formation of clusters. Babbie (2010:209) defines cluster sampling as ‘a multistage sampling in which natural groups (clusters) are sampled initially, with the members of each selected group being sub-sampled afterwards.’ Cluster sampling is used when it is either impossible or impractical to compile an exhausting list of the elements composing the target population. For the thesis at hand, it would not have been possible to gather articles from all British daily newspapers which is why a pre-selection based on the paper’s political allegiance was made. At a second stage, the key words ‘banking crisis’, ‘banking reform’, and ‘financial regulation’ were used to select the articles. In a last step, the sample was reviewed according to its relevance for the research question which is strictly limited to the public debate on post-crisis banking regulation in the UK, i.e. what are the main topics and arguments of various actors regarding the reform of banking regulation? Articles about associated topics like the regulation of other financial entities (accountants, clearing houses, etc.) were not included in the sample but are listed in detail in the codebook.

### 4.3 Units of Analysis

The media analysis combined two stages of coding, each of which referred to a different unit of analysis. The first stage (‘object coding’) referred to an article as a whole. Examples for variables at this stage are framework data (medium, publication date), but also occasion and main topic of the article. At the stage of object coding the media analysis was quantitative, thus mainly collected numerical data to measure the frequency and extent of the articles.

#### Example 1: Codebook, object coding (excerpt)

Object Coding - full article					
Q5: Does the newspaper’s political orientation influence the news coverage? How much space do the different newspapers dedicate to the topic before and after the election?					
Name	Description/Instruction	Example			
Surface	Surface of the article (length x width x height): size of the copied articles must be converted into original size	The Guardian: (Column height x 2) x 4,9 [original line width] x number of columns Financial Times: (Column height x 2) x 4 x number of columns The Times: (Column height x 2) x 4,9 x number of columns The Times (Comments p.2): (Column height x 2) x 6,1 x number of columns			
Pictures	Is the article illustrated? If no = 0, if yes =1,2, 3... number of pictures				
Genre	Which genre does the article have? 1 = press article, 2 = announcement (all articles up to 8 lines), 3 = Picture (with caption), 4 = comment, 5 = letter to the editor, 6 = interview				

The second stage (‘detail coding’) referred to single evaluative statements taken from the articles, thus added a qualitative dimension to the analysis. Contrary to quantification, qualitative research is about the ‘examination and interpretation of observations, for the purpose of discovering underlying meanings and patterns of relationship’ (Babbie 2010). The analysis took into account evaluative statements

about banking regulation<sup>18</sup> which were analysed according to (pre-)defined variables and attributes (categories). The system of categories is at the heart of every media analysis because its quality is decisive for the validity of the analysis. The media analysis at hand combined both open and closed systems of categories: after an initial review of the sample, a first version of the codebook was drafted which pre-defined selected categories (deductive development of categories). An example is the variable 'genre' which was exclusively limited to six different categories. On the contrary, the category for the coding of the different aspects of banking regulation was developed inductively: after the initial review a list with the most important aspects was set up which has been subsequently expanded during the analysis.

## Example 2: Codebook, detail coding (excerpt)

Detail Coding - single evaluative statements		
Q2: Which positions/contents are ascribed to the respective parties in the news coverage (partisan theory)? What are their main arguments pro and contra banking regulation and Q3: Which actors determine the public agenda (journalists/economic commentators, political parties, experts/epistemic communities...) before and after the election? Are the Q4: Do the newspapers simply express the arguments of different actors or are they articulating additional ideas and arguments?		
Level 1: 'banking regulation' as evaluation object		
Name	Description/Instruction	Example
Actor	Who makes the statement? 1 = journalist (no quotation of third persons, no indirect speech), 2 = Labour, 3 = Tories, 4 = LibDems, 5 = experts/epistemic communities, 6 = (cross-party) committees, 7 = Reader (letter to the editor), 8 = Banks, 9 = Bank of England/Regulators, 10 = Others	
Aspect	What aspect is evaluated? 1 = Restructuring/Reforming the banking sector	1 = ...but what they plan to do about the banks. Which, despite what the politicians say, is not much (0104001);
Tonality	How is the aspect evaluated? -2 = very negative, -1 = negative, 1 = positive, 2 = very positive, 3 = ambivalent	

Before starting to code the articles, the codebook has been pretested on a small selection of articles. That way it could be guaranteed that the different categories were comprehensive, exclusive and precise and that the codebook was an adequate survey instrument to empirically test the theoretical expectations formulated in chapter 3.

## 5. Data and Analysis

The following evaluation will systematically examine the results of the media analysis and aims at answering the question whether the news coverage on post-crisis banking regulation (independent variable) can actually be regarded as an explanation for a possible paradigm shift in the public debate on this topic (dependent variable). The conception and structure of the media analysis has already been described in the previous chapter. The sample, which consists of a total number of 290 articles and 586 evaluative statements, will not be described in detail in the introduction of this chapter. Instead, the five sub-questions formulated in chapter 3.3 will structure the following evaluation and combine a detailed

<sup>18</sup> The term 'evaluative' means that no neutral statements have been included in the analysis. The exact definitions for the coding of statements ranging from (very) negative over ambivalent to (very) positive can be found in the codebook. The selection criterion 'banking regulation' covered a broad array of aspects which are listed in detail in the codebook as well.

description of the empirical content of the thesis with a subsequent analysis of the data.

The central aim of the thesis is to find indicators for a possible paradigm shift in the public debate on post-crisis banking regulation initiated by the general election on 6 May 2010. Hence the thesis focuses on a number of key events before and after the election that have triggered an echo in the media and determined the news coverage in the months included in the sample. In the following, these events are briefly listed in chronological order to give a first overview and facilitate the later classification of the empirical content of the thesis.

## Chronology of events

### 13. April 2010

**Labour manifesto**, key point: global levy to require all banks to hold more and better-quality capital

### 14. April 2010

**Conservative manifesto**, key point: abolition of the Financial Services Authority; putting the Bank of England back in charge of prudential supervision

### 15. April 2010

**Liberal Democrat manifesto**, key point: break up large bank conglomerates; establish clear separation between low-risk retail and high-risk investment banking<sup>19</sup>

### 21. April 2010

**International Monetary Fund (IMF)** proposes to new taxes charged on banks to ensure that they contribute fairly to compensate for the risk they impose on society: **Financial Stability Contribution (FSC)** and **Financial Activities Tax (FAT)**. Proposal fuelled the discussion about a (global) bank levy in the UK

### 6. May 2010

**General election in the United Kingdom**

### 20. May 2010

**Coalition government** between the Conservative party and the Liberal Democrats publishes its **political programme**

### 25. May 2010

**Queen's speech/Financial Services Regulation Bill**: Reforming the regulatory framework so that the Bank of England is responsible for macro-prudential regulation and has oversight of micro-prudential regulation.

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<sup>19</sup> A detailed list of the different party positions on banking regulation can be found in the annex of this thesis.



13. June 2010

**Future of Banking Commission** presents final report to the new government

16. June 2010

**Chancellor George Osborne's Mansion House speech** confirms the content of the Financial Services Regulation Bill: all supervisory authority in financial regulation is transferred from the Financial Services Authority to the Bank of England

22. June 2010

Presentation of the **emergency budget** which includes a bank levy to be introduced in January next year. Levy to be applied to the balance sheets of UK banks and building societies and to the UK operations of banks from abroad. Expected to raise over £2bn of annual revenues.

### 5.1 Which topics are emphasized by which newspapers? What were the main topics before and after the election (Q1)?

All graphs presented in the following subchapter refer to the first stage of coding (object coding), hence the unit of analysis is the article as a whole. The graph at hand gives an overview of the ten main topics that were dealt with by each of the four newspapers in the sample:

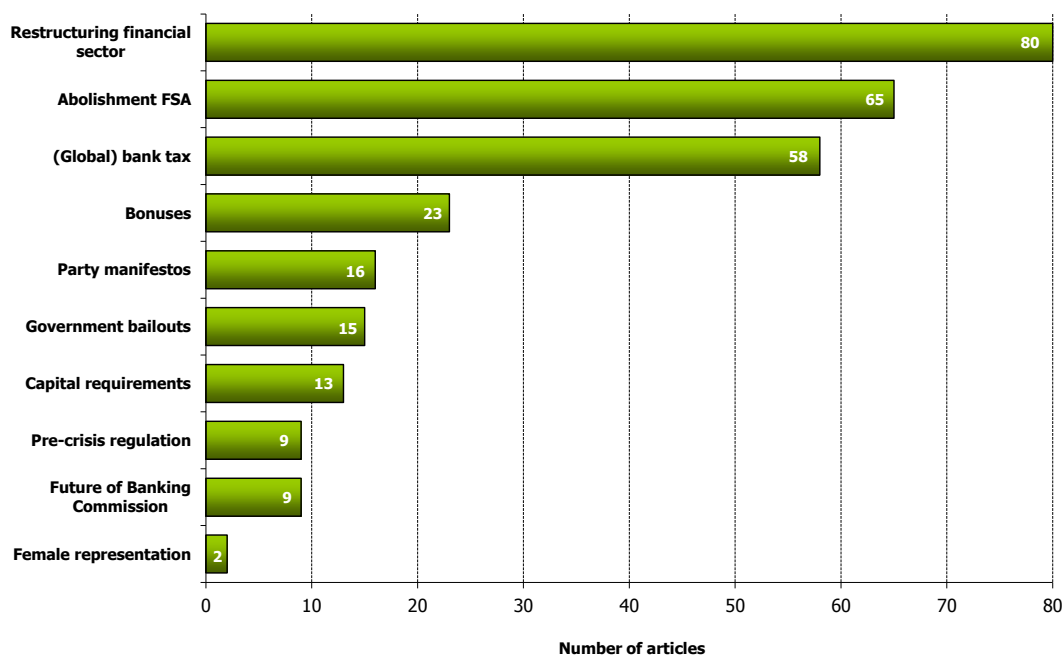


Figure 1: Topic overview, n = 290 articles

The graph clearly identifies three key topics that have determined the news coverage in each newspaper:

#### Restructuring the Financial Sector (80 articles)

is a collective category for articles which in general refer to the plans of the respective parties or other actors to restructure the financial sector or introduce new regulatory requirements:

- *'A radical restructuring [of the financial sector] is urgently necessary, argues Better Banking' (0105003).*
- *'One competition lawyer said that both Labour and Conservative plans for the banking sector had left many questions unanswered' (0305002).*

The category also includes the issue of breaking up banks that are considered systemically relevant, so that their failure would have disastrous consequences for the economy ('too big to fail'-problem):

- *'It is inherently risky to have banks that are 'too big to fail', especially when they know the state will bail them out when the going gets tough' (0104001).*

The emergence of articles about restructuring the financial sector is not bound to any particular occasion but occurs frequently in the sample covering the months April to June 2010. At the stage of object coding, the categories are deliberately designed to be very broad in order to give a first impression of the topics included in the sample. At the next stage of detail coding, the categories will be defined more narrowly.

### **Abolishment FSA/New Role for the BoE (65 articles)**

In the run-up to the general election in May 2010, the Conservative party was obliged to position itself at a rather radical point on the reform spectrum in order to distance itself from the governing Labour party which rejected any radical move to restructure the financial industry. Thus, as far as the reform of regulatory institutions was concerned, the Conservative party committed itself to the complete abolition of the Financial Services Authority and to the return of all supervisory authority to the Bank of England. When the issue first came up in the Conservative party manifesto, it unleashed a storm of protest among journalists, economic experts and Labour representatives:

- *'But at least you can see the political attractions of these [other Tory proposals in the party manifesto] whereas the flagship financial policy of putting the Bank of England in charge of regulation just looks a duff idea. We can only hope that it doesn't do too much damage' (0404007).*

The proposals seemed to be watered down during the coalition talks between the Conservative and Liberal Democrat party in the aftermath of the election:

- *'The coalition agreement is also deliberately woolly on the future of the Financial Services Authority, the City regulator, which the Tories had planned to scrap, diverting all its responsibilities to a reluctant Bank of England. It is all a classic example of heaving a thorny problem well into the long grass' (0405010).*

However, the proposals were catapulted back on top of the political agenda during Chancellor George Osborne's first Mansion House speech in which he announced the most fundamental shake-up of the financial regulatory architecture since 1997:

- *'George Osborne last night moved to redress what he described as the spectacular regulatory failure of the City, announcing the abolition of the*

*Financial Services Authority and a sweeping increase in the Bank of England's power' (0306012).*

- *'The crisis demonstrated the need for new regulatory approaches and more intense supervision, and the FSA has already implemented major change. But it also demonstrated the need to bridge the gap between macro-prudential policy and the supervision of individual firms' (0106019).*

### **(Global) Bank Tax/Regulation (58 articles)**

The adoption of a bank levy based on the systemic risk a bank poses to the economy was a key part of the election programme of Gordon Brown's Labour party. The public debate about a global bank tax was particularly fuelled in mid-April 2010 by the International Monetary Fund (IMF) that proposed to new taxes charged on banks to ensure that they contribute fairly to compensate for the risk they imposed on society: a Financial Stability Contribution (FSC), designed to raise a reserve fund to bail out any failing institution before it can endanger the economy as a whole and a Financial Activities Tax (FAT) as an additional tax on bank profits and bankers pay. The IMF proposals were welcomed by all three major British parties:

- *'The prime minister [Gordon Brown], who held talks with Angela Merkel, German chancellor, outside London last week, said the scene was set for a 'global responsibility levy.' 'Britain, France, and Germany have talked about what we can do together. We are agreed on the need for a common basis', he said' (0304005).*
- *'LibDem Treasury spokesman Vince Cable also welcomed the report: 'If we are to create a stable banking system, we must ensure that taxpayers are not expected to underwrite the risks of reckless casino banking, and that pay and bonuses within banks do not reward irresponsible behaviour' (0104018).*

The fact that the Conservative party was willing to impose the tax without any international support caused particular anger in the City that feared for its global competitiveness:

- *'Mr Cameron will today confirm that a Tory administration would impose a new levy on banks regardless of whether any other country will follow suit, in a likely move to cause anger in the City' (0304010).*

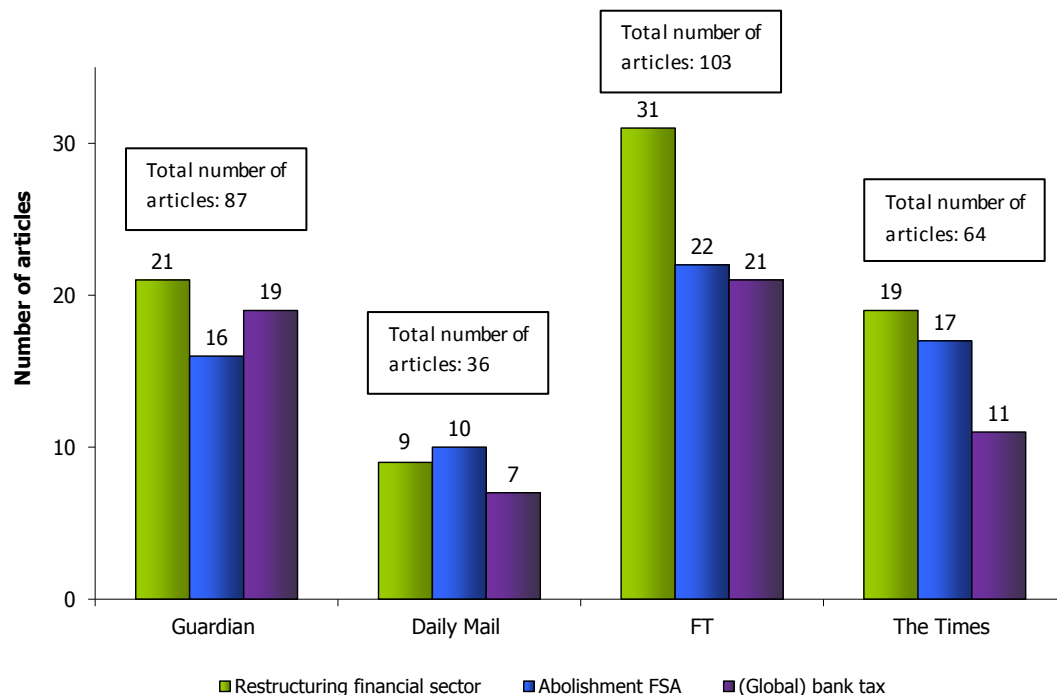
After the election, the topic came up again in connection with the Treasury's publication of the emergency budget on June 22, 2010 and was judged with great scepticism by the City:

- *'Banks in the UK will be forced to stump up more than £2bn to pay an annual bank levy, George Osborne said in his debut budget yesterday. The balance sheet tax, to be paid from next January by UK banks and building societies as well as UK operations of foreign banks, is likely to be the first such levy globally to be implemented' (0306030).*

- *'The City remains worried that the tax will harm London's standing as an international financial centre. 'It isn't a level playing field', said one senior UK banker. 'You can set up shop at Switzerland, say, and push all your intensive operations through there' (0306030).*

Articles that refer to regulatory agreements that were reached at the European level or at G20 meetings are also included in this category as long as direct consequences for the UK or quotes from UK officials are mentioned. Most of the following graphs will be limited to these three key topics in order not to exceed the scope of this thesis. More detailed information on the other topics can be found in the code book which is listed in the annex to the thesis.

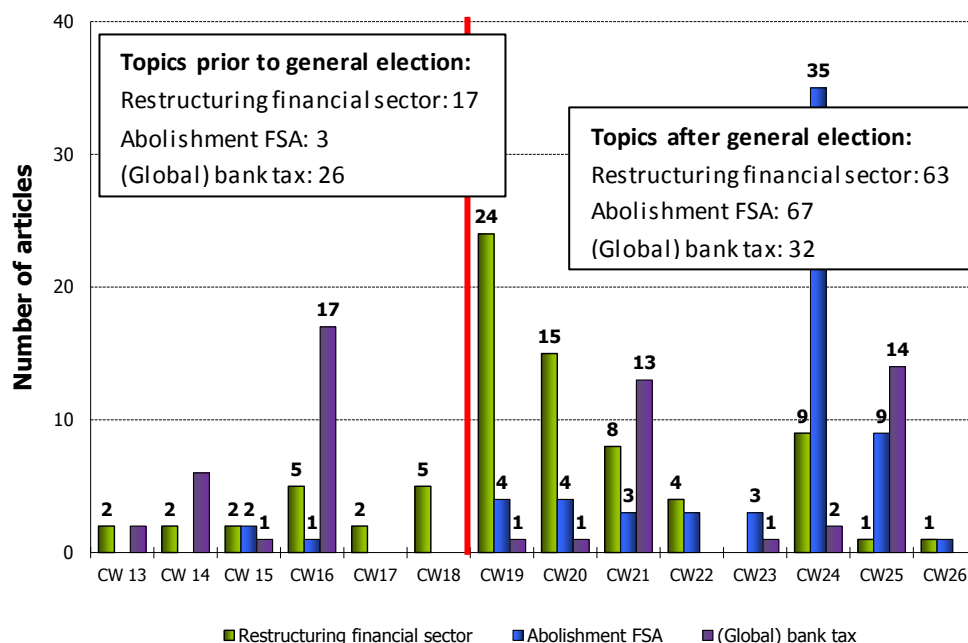
The following graph shows the distribution of the three main topics on the four individual newspapers Guardian, Daily Mail, Financial Times (FT) and The Times. The green column shows the number of articles that were about 'Restructuring the financial sector', the blue column indicates the number of articles about 'Abolishing the FSA', and the purple column those articles about a '(Global) bank tax'.



**Figure 2: Key topics per newspaper, n = 203 articles**

The broad topic 'Restructuring the financial sector' is dealt with most frequently by almost all newspapers. The gap to other topics is particularly large in the FT (31 articles in contrast to 22/21 articles about the other topics). Being the only newspaper in the sample with a clear economic focus, the fact that it publishes more general articles about financial regulation does not come as a surprise. The Daily Mail is the only newspaper which reported slightly more often about the abolition of the FSA. This topic is of the second highest priority for both the FT and The Times, while the Guardian attaches more importance to the issue of a (global) bank tax – as measured by the number of articles.

The next graph shows the distribution of the three main topics before and after the general election. The x-axis is divided into the twelve calendar weeks (CWs) that form the sample. The red line indicates the day of the general election on May 6, 2010 (CW 18). The three varicoloured columns again show the numbers of articles published about the three main topics 'Restructuring the financial sector' (green), 'Abolishment FSA' (blue), and '(Global) bank tax' (purple).



**Chart 3: Key topics over the course of time (calendar weeks), n = 203 articles**

The only topic that was able to generate a lot of media attention prior to the general election was the public debate about a (global) bank tax. The issue was high on the public agenda for the first time in CW 14 when Prime Minister Gordon Brown held talks with the German Chancellor Angela Merkel in London and claimed

- *'[...] that the world's large economies were close to agreeing a global tax on banks that would cost the financial sector billions of pounds a year, but played down expectations that a deal could be struck at the Group of 20 meeting in June' (0304005).*

The public debate on a (global) bank tax reached its peak in CW 16 when the IMF published its proposals for a Financial Stability Contribution (FSC) and a Financial Activities Tax (FAT) charged on banks. The IMF proposals imparted new impetus for Labour's electoral campaign but were heavily criticised by the banking industry, fearing for the overall impact on the British economy and the City's international competitiveness in particular:

- *'We are ready for change – but these proposals could damage the UK, not help it [Angela Knight, head of the British Bankers' Association]' (0104023).*

After the general election on May 6, 2010, the scope of all three topics increased significantly. Restructuring the financial sector was high on the political agenda during the coalition negotiations between the Conservative and Liberal Democrat

party in the immediate aftermath of the election (CWs 19 and 20). Vince Cable, former economic spokesman of the Liberal Democrat party and most fervent critic of the banking industry, was assigned the position as Business Secretary and thus forced to let George Osborne, the new Conservative Chancellor of the Exchequer, take the lead in reforming the banking sector. The joint five-year coalition programme was hence formulated relatively modest in terms of banking reform:

- *'A commission to examine the separation of retail and investment banks will be set up. This is a compromise. The Lib Dems wanted a clear separation. The Tories sympathised with the idea but were more cautious. Tory plans to 'abolish Gordon Brown's failed tripartite system of regulation', which sounded the death knell of the FSA, are watered down. But the Bank of England will still be out in control of macro-prudential supervision and will have oversight of micro prudential regulation' (0105011).*

Despite the fact that the complete abolition of the FSA seemed to be taken off the table by the coalition programme, the issue was catapulted back on top of the political agenda in CW 24 when Chancellor George Osborne announced the biggest shake-up of financial regulation since 1997: the Bank of England is to regain complete supervisory control over the banking sector and thus be responsible for monetary policy, financial stability as well as macro-prudential supervision and oversight of micro-prudential supervision.<sup>20</sup> The radical regulatory overhaul was accompanied by the announcement of a new bank levy and the set-up of an independent banking commission that would review the banking system, focusing on competition issues and the possible splitting of retail and investment banking operations. Although George Osborne emphasized that the government's vision of 'a new settlement between our banks and the rest of society' was predicted on fairness and the need to prevent another financial crisis (FT, 17 June 2010), both the banking industry as well as journalists and economic experts remained rather sceptical about the financial regulatory regime:

- *'The Bank now has the authority to pursue any avenue to ensure it sees the full picture of risk in the system. What could possibly go wrong? Plenty. The transition will not be smooth'.*
- *'Such a concentration of power in one institution has not been tested. That is not a reason for not trying and not testing, argued King last night. Fair enough. But it's not hard to imagine how the pursuit of monetary stability and financial stability could come into conflict in the midst of a crisis. What would happen if the Bank became afraid that a sharp rise in interest rates, for the good of the economy, would create severe problems for a major financial firm?' (Both statements made by Nils Pratley, Guardian, 0106022.)*

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<sup>20</sup> The new financial regulatory architecture will be depicted in detail in the following chapter.

## Summary: The Agenda-Setting Power of the Media

The chapter has outlined the different topics that were taken up by the four daily newspapers between April and June 2010 with regard to banking regulation. The analysis is based on the assumption that in democratic societies, the press is able to shape and influence public debate by selecting and placing selected topics on the public agenda, thus '[setting] the agenda for each political campaign, influencing the salience of attitudes towards the political issue (McCombs & Shaw 1972:177). The analysis has shown that all four newspapers identified three main issues regarding banking supervision before and after the general election and reported on them to a comparable degree. McCombs and Shaw (1972:177) argued that voters learn and debate about politics 'in direct proportion to the emphasis placed on the campaign issues by the mass media.' Relying on this argumentation, it is possible to conclude that the public debate on post-crisis banking regulation in the UK has been determined to a significant degree by the news coverage on the three key issues presented in this chapter.

### 5.2 Which actors determined the public agenda before and after the election?

#### Did the newspapers provide a forum especially for conservative, liberal, etc. actors (Q2)?

All of the graphs in this subchapter refer to the second stage of coding (detail coding). The unit of analysis is no longer the article as a whole but the single evaluative statements that refer to banking regulation. The following graph gives an overview of the different actors who made these statements:

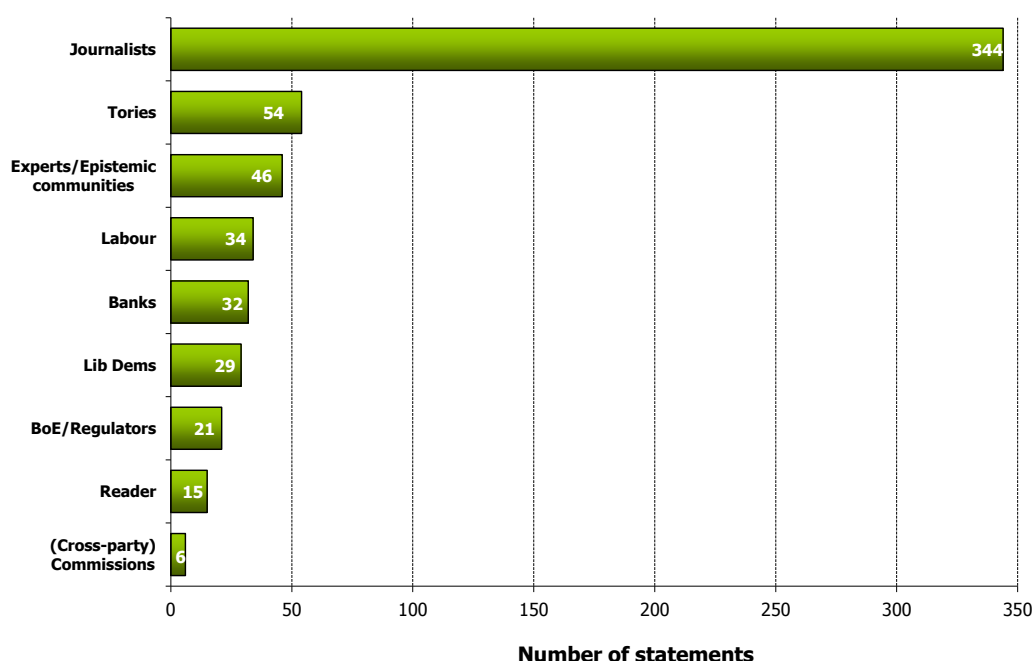


Chart 4: Actor overview, n = 581 statements

By far most of the statements included in the sample are made by journalists themselves. This fact already indicates that journalists can have a significant influence on shaping the public opinion – an assumption that will be investigated in

more detail in subchapter 5.4. The subsequent groups are much closer together which is why the following graphs will solely concentrate on them and omit the category 'journalists'.

The graph shows that of the three parties, the Conservatives are quoted most frequently (54 statements), followed by Labour (34 statements) and the Liberal Democrats (29 statements). Among the experts and economic professionals quoted in the four different newspapers (46 statements) are for example the British Institute for Fiscal Studies, the business thinktank 'Tomorrow's Company', or the American economist Paul Volcker, who gave his opinion on the future shape of banking regulation during two speeches in London in May 2010. The financial industry (32 statements) is represented by different City officials, the British Bankers' Association, or the Association for Financial Markets in Europe (AFME) when it comes to financial regulation on the European level.<sup>21</sup> The regulatory voice (21 statements) is made heard mostly by officials of the BoE (Governor Mervyn King or Deputy Governor Paul Tucker), or FSA executives. Other actors include readers (letters to the editor, 15 statements) or (cross-party) commissions (6 statements). The latter includes a Treasury select committee on the representation of women in the financial sector and the Future for Banking Commission; a cross-party commission conceived by the consumer group Which? that aims to put the wider interests of society at the heart of financial reforms and presented its first report to the new government on June 13, 2010.<sup>22</sup>

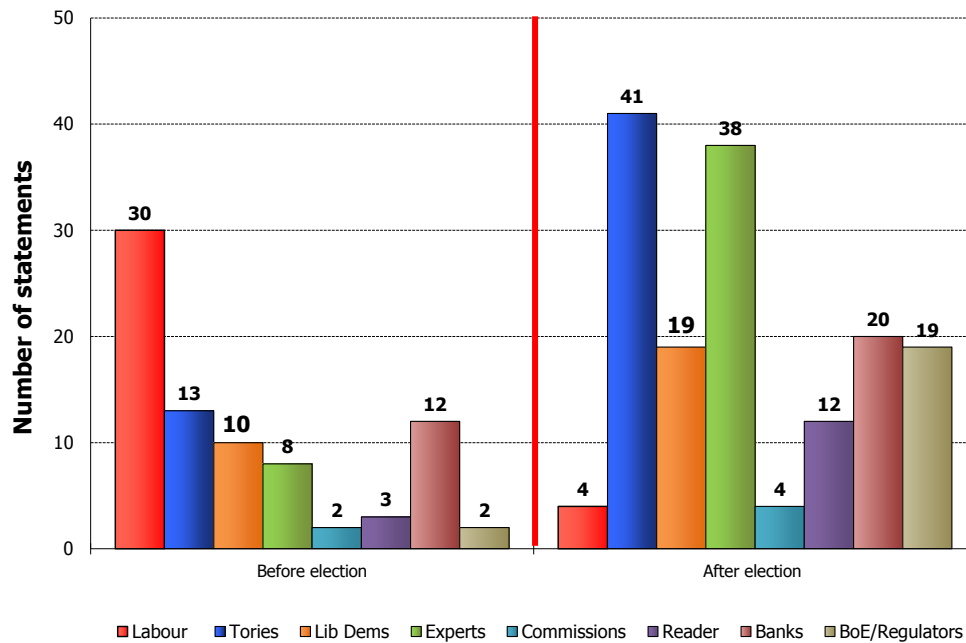
The next graph shows which actors have determined the public agenda before and after the general election on May 6, 2010 (the date is indicated by the red line). As mentioned earlier, the category 'journalists' has been left out due to its exceptionally high case number. The three parties are represented according to their traditional colours: the red column represents the Labour party, the blue column the Conservatives and the orange column the Liberal Democrats. The meaning of the other columns can be seen in the legend below the graph.

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<sup>21</sup> AFME was formed in November 2009 through the merger of the London Investment Banking Association (LIBA) and the European arm of the Securities Industries and Financial Markets Association (SIFMA). AFME offers a single voice for the leading global and European capital market participants and advocates their view at national, EU and global level.  
Cf. <http://www.afme.eu/About/Mission.aspx> (last accessed June 24, 2013)

<sup>22</sup> The sample also includes five statements by other actors that could not be assigned to one of the different categories: Richard Lambert, director of the Confederation of British Industry, Nick Anstee, Lord Mayor of the City of London, Timothy Geithner, former US Secretary of the Treasury.





**Chart 5: Actors before and after the general election, n = 237 statements**

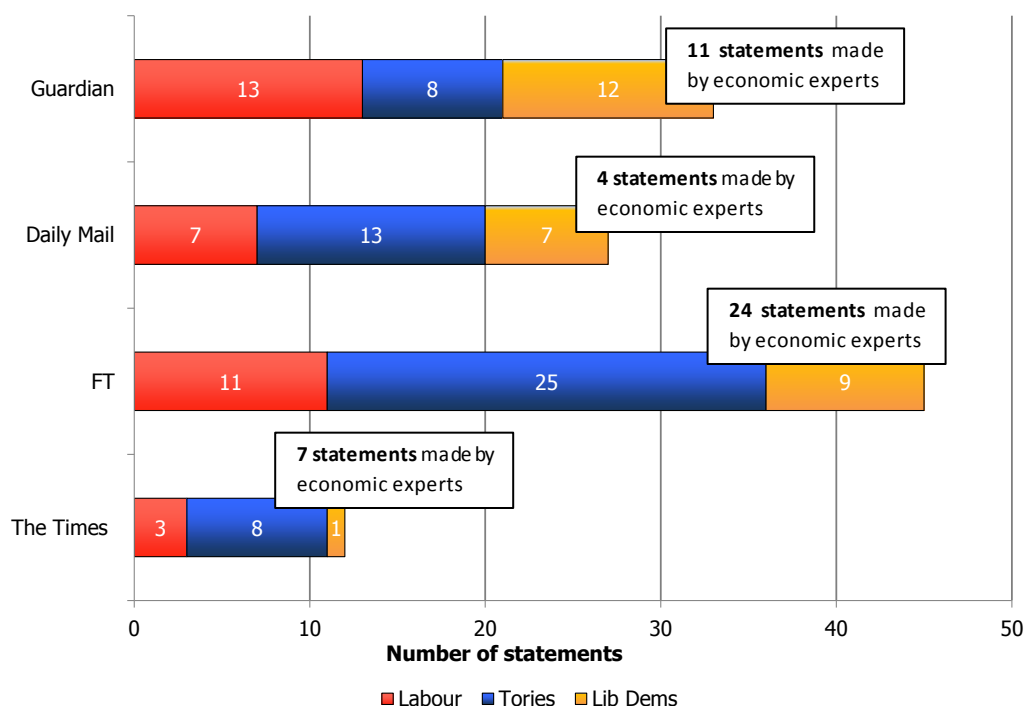
The graph shows that representatives of the Labour party (mainly the former Prime Minister Gordon Brown and his chancellor Alistair Darling) have determined the public agenda prior to the general election. Being head of government at the time, Gordon Brown often had to take a stand on the pre-crisis regulatory arrangements and was asked about Labour's future plans on financial regulatory reforms:

- *[Gordon Brown admits that he had succumbed to lobbying:] 'In the 1990s, the banks they all came to us and said 'Look, we don't want to be regulated, we want to be free of regulation.' And actually the truth is that globally and nationally we should have been regulating them more. So I've learnt from that' (0104011).*

After the general election, the picture changed completely: the decisive actor was now the Conservative party with its newly elected Prime Minister David Cameron and his chancellor George Osborne (13 statements compared to 41 after the election). Despite the fact that the 2010 general election was the first one resulting in a hung parliament since 1974, the Liberal Democrats as coalition partner could not significantly increase the number of their statements (10 statements compared to 19 after the election). This fact underlines the leading role of the (conservative-led) Treasury in the area of banking regulation – Vince Cable as new liberal Business Secretary has largely been excluded from the discussion, although he took the most radical view on reforming the banking sector prior to the election. The most surprising fact which the graph reveals is the significant increase of statements made by experts and economic professionals after the general election (8 statements compared to 38 after the election). The radical overhaul of the financial architecture initiated by Chancellor George Osborne triggered a broad – and very sceptical – response in professional circles:

- *'There are areas in the coalition agreement where mating a pure-bred Tory policy with a pedigree LibDem manifesto commitment has produced a mongrel, but in the area of financial regulation, the opposite is the case. The new government seems likely to implement an entirely sensible reform which avoids the massive disruption and uncertainty that abolishing the FSA would have treated' [Howard Davies, director of the London School of Economics on the watered down coalition agreement in terms of financial regulation prior to George Osborne's Mansion House Speech, 0305022].*
- *'What is very odd is that, because the Bank of England didn't supervise very well, the present government thinks it is able to do the job it wasn't able to do in the 1990s' [Professor Scott Quinn, International Capital Markets Association Centre, Henley Business School, 0306020].*

The last graph in this subchapter aims at answering the question whether the four different newspapers in the sample provide a forum especially for conservative, liberal, etc. actors. Each bar represents one of the newspapers and is subdivided into three different colours, each of which stands for one of the parties according to the colour scheme outlined in the previous paragraph:



**Chart 6: Newspapers as forum for different parties, n = 117 statements**

Although the three parties have their say in all four newspapers to a varying extent, the graph clearly reflects the paper's political orientations presented in chapter 4.2: the Guardian is the only newspaper in the sample with a clear liberal to centre-left allegiance and a readership largely split between Labour and Liberal Democrat voters. Hence it is the only newspaper that gave more room to quotes from those two parties than to statements made by representatives of the Conservative party. The Daily Mail as a middle-market tabloid newspaper with traditional conservative

values published statements from the Conservative party almost twice as often as statements made by Labour or the Liberal Democrats – a fact that is even more distinct in the FT. The financial newspaper published the highest total number of statements about banking regulation and especially provided a forum for the Conservative party which it supported in the run-up to the 2010 general election for the first time since 1987. Compared to the other newspapers, The Times published the lowest total number of statements made by representatives of the three parties but gave most room to quotes from the Conservative party according to its political allegiance.

Due to the high number of statements made by experts and economic professionals that was shown in the previous graph, this graph additionally shows how these statements are distributed among the different newspapers: Unsurprisingly the FT as the only financial newspaper in the sample which is oriented towards a specialised readership published the highest number of statements made by economic professionals, either in the form of direct quotes or guest contributions.

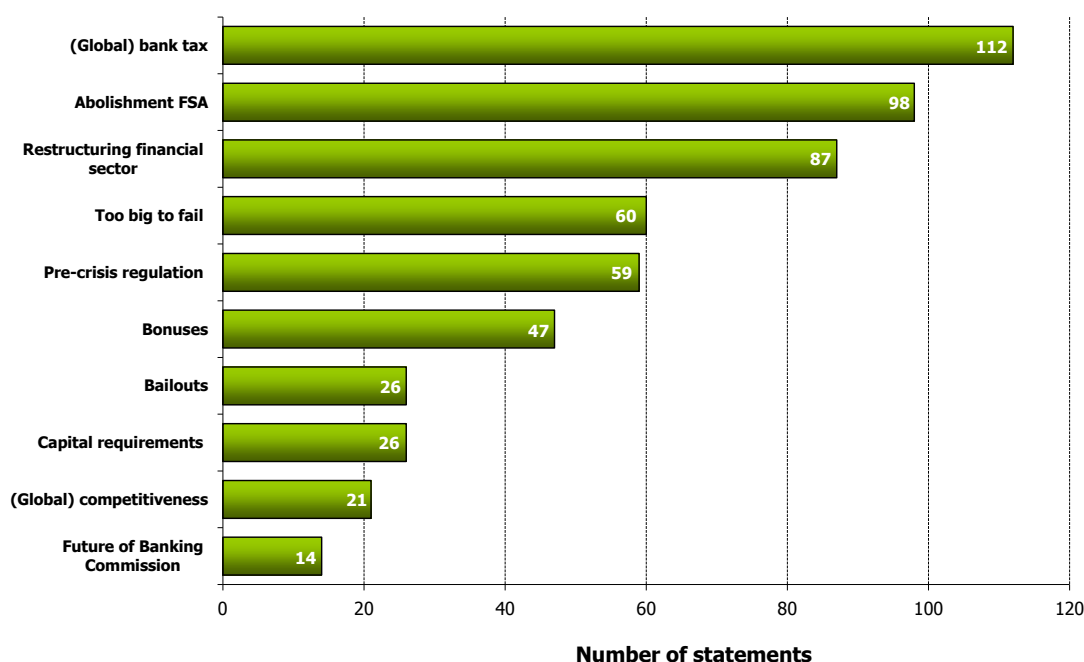
### **Summary: Who Determined the Public Agenda?**

The subchapter has shown that a purely state-centric approach as outlined in the theoretical framework in chapter 3.1 would have fallen short of the mark when assessing which actors have the potential to influence and shape the public agenda. The coalition-centred approach (cf. Hall 1989) indicates that in democratic and pluralistic societies, policy-making does not occur within a shielded black box in which public officials operate completely independent from external pressure. The previous analysis has confirmed this assumption within the limits a media analysis that covers three months and four newspapers can provide: Next to the significant role of journalists as opinion-forming actors which will be investigated in more detail in subchapter 5.4, it is primarily economic experts and professionals who shape and influence the public debate on banking reform. The document-based analysis on the actual regulatory reforms that have taken place in the years after the general election will show in how far these ‘outside voices’ from external actors were actually incorporated in the decision-making structures of governmental officials. This chapter, however, has underlined the significance of the coalition-centred approach and shown that the political system has to be understood as a network of political parties and other societal groups that play a part in shaping the public debate and use the media as an intermediary to express their opinions.

### **5.3 Which contents were ascribed to the respective parties in the news coverage? What were their main arguments pro and contra banking regulation and have they changed after the election (Q3)?**

At the stage of object coding, the category covering the topics that were taken up by the different newspapers was deliberately designed to be very broad in order to give a first overview of the sample. At the stage of detail coding, the category has

been defined more narrowly and now includes 18 different aspects that can be found in the news coverage on banking regulation. The following graph shows the 'Top Ten' of these aspects:



**Chart 7: 'Top Ten' aspects about banking regulation, n = 550 statements**

At the top, not much has changed compared to the graph showing the overall topics in chapter 5.1: a (global) bank tax, the abolition of the FSA and restructuring the financial sector are still the aspects of banking regulation that are taken up most frequently by the different newspapers. The very broad category 'Restructuring the financial sector' has been refined – which explains the smaller number of cases – and now includes only general statements about the reforms in the banking sector or statements in which several aspects are mentioned:

- *'Current proposals do nothing to alter the structure of the banking system, will make only modest changes to how they function and are a poor second best when it comes to taxing them more fairly' (0104001).*

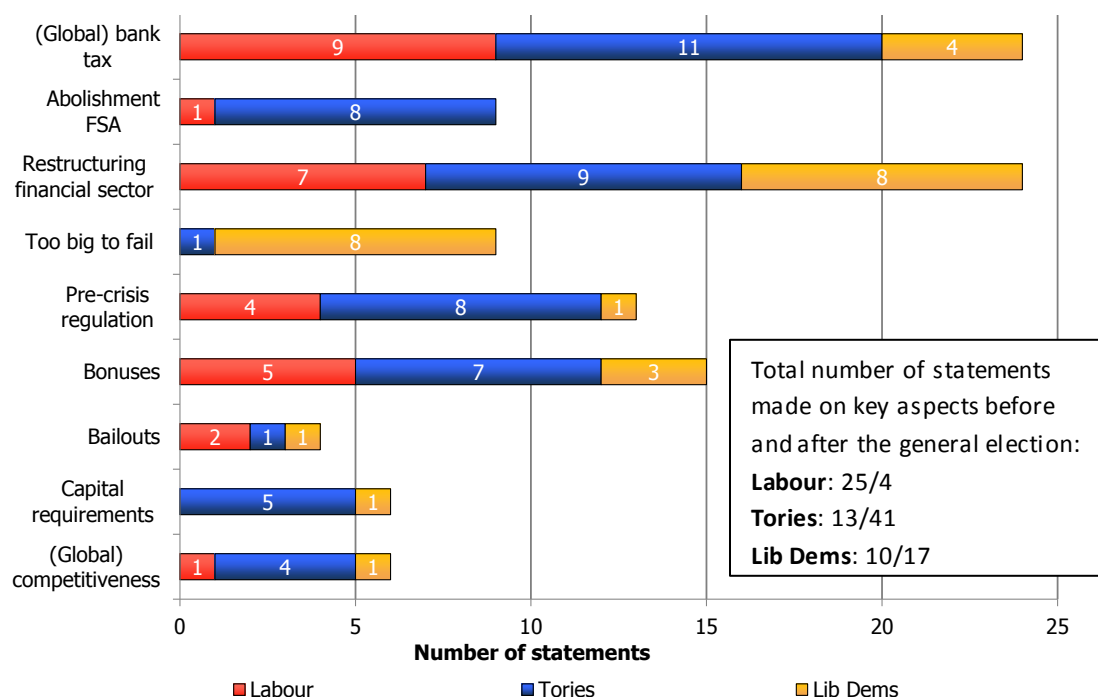
The aspect 'Too big to fail' has been added to the analysis and includes statements about breaking up banks that are considered systemically relevant and to establish a clear separation between low-risk retail and high-risk investment banking:

- *'It is inherently risky to have banks that are 'too big to fail'; especially when they know the state will bail them out when the going gets tough' (0104001).*
- *'The chances might still be low, but the prospect of (very welcome) action to break up the big banks must be greater under the Tories' (0104013).*

Other aspects that were added to the analysis but are not shown in this graph due to their small number of cases include the representation of women in the financial sector (7), key points on banking regulation in party manifestos (7), the fraud investigation against Goldman Sachs (7), the granting of credits to (small)

businesses (5), statements about consumer protection and service (4), long-term effects of the financial crisis for the economy (3), and a pay freeze taken by public officials like BoE governor Mervyn King in order to set a good example for the rest of the society who had to face severe spending cuts in the aftermath of the crisis (3). Detailed explanations to the different aspects can be found in the codebook.

The following graph shows how often the different aspects were taken up by the three different parties and hence which contents have been ascribed to the respective parties in the news coverage on banking regulation. Each bar stands for one of the aspects introduced in the previous passage<sup>23</sup> and is again subdivided into the three different colours representing the respective party:



**Chart 8: Key aspects according to different parties, n = 110 statements**

When looking at the total number of statements made by the three parties on the key aspects depicted in the graph (numbers in the description field), it becomes clear that the voice of the governing party is heard much more often than that of the opposition. The graph shows that one of the main arguments made by the Labour party focused on the introduction of a tax charged on banks to compensate society for its losses during the financial crisis. All of these 9 statements were made in the run-up to the general election. In parallel to the IMF proposals, Gordon Brown and his chancellor Alistair Darling strongly advocated the idea of a global bank levy that would not endanger the international competitiveness of the City:

- *‘We have come a long way from the meeting of G20 finance ministers in St Andrews last year when we [Britain] got the cold shoulder from everybody. Britain believes that only a global agreement will prevent banks from seeking*

<sup>23</sup> None of the three parties has made any statements about the Future of Banking Commission which is why this aspect has been left out in the graph.

*out locations where the proposed taxes could not apply' [Chancellor Alistair Darling, 0104021].*

Additionally, Labour combined the introduction of a bank tax with its vision for a new relationship between banks and the society in its manifesto:

- *'And we will introduce a new levy on banks to help fund a step-change in the scale of affordable lending by third-sector organisations, including a new partnership with the Post Office, offering an alternative to loan-sharks and high-cost doorstep lending' (0204007).*

After the election, the Conservative party took over leadership and commented on a much broader spectrum of aspects than Labour. Most statements made by party representatives were about the introduction of a bank tax, too – almost all of them were made after the party had won the election and entered into a coalition government with the Liberal Democrats. Other important issues for the Conservative party included the general reform of the banking sector (9 statements), of course the abolition of the FSA (8 statements) and corresponding comments on Labour's pre-crisis regulatory arrangements (7 statements) as well as remarks on banker's bonuses and incentive mechanisms in the financial sector. The party's stance on this issue is contradictory: George Osborne made clear prior to the election that he

- *[...] was unequivocal about reining in bankers' remuneration [...]. 'The financial regulators should combine forces and stop retail banks paying out profits in significant cash bonuses. Full stop' (0304007).*

Other conservative parliamentary candidates did not necessarily agree – not least because of the fact that 'forty-eight of the 206 Conservative candidates identified as possible winners worked in the City or finance before politics' (Financial Times, 6 April 2010). The coalition programme eventually adopted after the election remained vague on the issue:

- *'Banker pay could prove to be a true fault line for the coalition – the Tories have urged restraint but the Lib Dems wanted to cap bonuses. Like Labour before them, the Tories are nervous of taking a hard line on bonuses' (0406011).*

Being the third party in a country with an actual two-party system, the Liberal Democrats provided the only significant dissenting voice to the positions of the two major parties. Under the influence of their economic spokesman Vince Cable, the party developed the most radical critique of the financial markets of all three main parties and focused on an issue which both Labour and the Conservatives had left mainly untouched: the separation of retail and investment banks ('too big to fail', 8 statements).

- *'Casinos belong in Las Vegas, not in banking. We want straightforward, simple banks which do the basics well, not laboratories for financial rocket scientists' [Vince Cable, 0105013].*

Next to harsh critique from the financial industry, a major part of the journalists labelled the party's plans as too bold.

- *'Comfortably the most radical package on offer, not just in the proposals for redistribution, but in the willingness to reform the City through breaking up the banks into separate retail and investment arms. Little chance of them having to do any of it, of course' (0104014).*

Only a few journalists adopted the same view:

- *'More than Labour or the Conservatives, the Lib Dems and Vince Cable seemed to recognise the need for radical change and should push hard to hold on to their bold plans for breaking up banks' (0105009).*

The last graph in this subchapter aims at adding an additional dimension to the profiles of the respective parties: instead of merely depicting the frequency of issues taken up by party representatives, it shows how the issues have been rated on a scale from -2 (very negative) to +2 (very positive). As mentioned earlier, the detail coding of the sample included only evaluative statements – neutral statements have not been taken into account. The tonality of the statements has been determined on the basis of the following questions: how have the different aspects of banking regulation been evaluated by the respective actors? Have they evaluated the aspects in a positive way or do they criticise them? Ambivalent statements ('0') contain both positive and negative evaluations without one outweighing the other. It needs to be emphasized, however, that the only purpose of the graph is to facilitate the classification of the parties regarding their content-based position. Statistically, it is invalid to calculate the average of ordinally scaled variables – additionally, the number of cases is basically too small to calculate a significant average. Keeping this in mind, the graph is built up as follows: again each bar represents one of the nine thematic key aspects of banking regulation. The varicoloured points represent the different parties according to the notorious colour scheme. Each point is located on the scale from -2 to +2 and represents the party's average score for the respective topic.

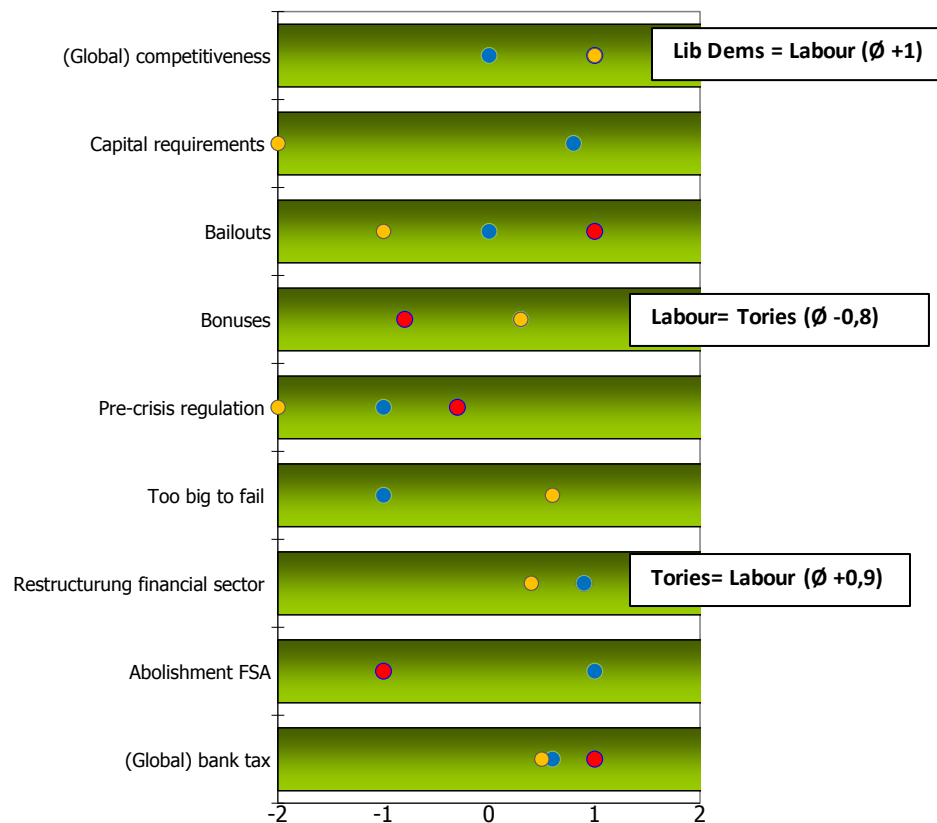


Chart 9: Party profiles, n = 110 statements

In three cases (which are explained in the description fields), two parties have evaluated the aspect in the same way, so that their points overlap.

The graph illustrates that all parties – even the coalition partners – have divergent views on most of the issues. The only aspect which both the Conservatives and the Liberal Democrats evaluate almost identically is the introduction of a levy charged on banks in order to compensate society for its losses during the crisis:

- *'This was a crisis that started in the banking sector and the failures of the banks imposed a huge cost on the rest of society. So I believe it is fair that banks should make a more appropriate contribution which reflects the many risks they generate'* (George Osborne, 0406016).

The Liberal Democrats do not comment on the abolition of the FSA, an issue that provoked a lot of criticism within the Labour party. Especially in the run-up to the general election, both Labour and the Conservative party attempted to win the goodwill of the voters by making positive statements about the general restructuring of the financial sector:

- *'We must address fundamental questions about the causes of the financial crisis and how we build a new era of shared prosperity'* (David Miliband, Labour Secretary of State for Foreign and Commonwealth Affairs 2007-2010, 0105013).
- *'I'm not just there to be a cheerleader for financial services, right or wrong. I want a competitive financial services sector, but I want to protect*



*the taxpayer from badly regulated financial services' (George Osborne, 0305003)*

While the two major parties commented rather reluctantly on issues like the restriction of banker's bonuses or approaching the 'too big to fail'-problem, the Liberal Democrats have used these topics to profile themselves as serious alternative to the two major parties. Statements like

- *'We must also split up big global banks like RBS or Barclays to stop the tail of investment banking wagging the dog of traditional banking' (Vince Cable, 0204012);*
- *'Overall, this year's City bonuses are expected to be £7bn, the average of about £70,000 almost three times the average worker's salary. What should be done? Cash bonuses should be limited to £2,500' (Vince Cable, 0204012)*

were the ingredients for policy innovation and hence responsible for the party's growing popularity among the voters and the reason why the 2010 general election resulted in the first coalition government in British history to eventuate directly from an election outcome.

### **Summary: Party Profiles in the News Coverage**

The positioning of the three parties with regard to the different aspects of banking regulation has painted an interesting picture. Historically, British economic policy developed around a deepening class cleavage between capital and labour that has characterised the party system as a whole: after the Second World War, Labour established itself as the opponent of the main business friendly party, the Conservatives, with an electorate largely composed of workers and trade union members. However, when the party came to power in May 1997 in the middle of an economic boom initiated by Margaret Thatcher's economic policy of privatisation and deregulation, Labour saw little reason to change this successful economic project. Instead, the party bowed to the narrative that the financial sector was indispensable in creating employment in a post-industrial economy and that the international competitiveness of the City had to be protected at any price. The previous analysis has shown that although Labour tried to base its electoral campaign on the broad terms 'fairness' and 'justice' to win back society's support – e.g. by vehemently advocating a levy charged on banks – the party was unable to detach itself completely from the glorification of the City. Sensitive issues like the separation of retail and investment banks have been left mainly untouched by both of the two major parties and thus gave the Liberal Democrats the opportunity to position themselves as a serious alternative in the election campaign.

In order to distinguish itself from the governing Labour party, the Conservative opposition was forced to take on a much more radical position on financial reforms than the party's traditional business-friendly ideology would have suggested. Especially Shadow Chancellor George Osborne's statements about returning to the pre-1997 regulatory approach by abolishing the FSA and a restriction of banker's

bonuses affronted a lot of the party's old-established members – many of whom have a background in financial services. Despite the fact that the regulatory overhaul proposed by George Osborne has been pushed through after the election, many of the other more radical proposals have been watered down in the five-year coalition programme. As governing party, the Conservatives apparently try to balance the interests of society against those of the financial services industry while the role of main critic of the banks has been left to the coalition partner.

#### 5.4 Did the newspapers simply express the arguments of different actors or did they articulate additional ideas and arguments (Q4)?

This question is of essential importance for the research interest of the thesis and the most difficult one to answer empirically. It focuses on the opinion-forming role of the media which was briefly addressed in previous subchapters. In the following, the role of journalists in the opinion-forming process will be investigated in more detail before turning to the impact of the media on societal actors, namely representative interest groups.

Chart 4 in chapter 5.2 has given an overview of the different actors involved in shaping the public debate about banking regulation and shown that by far most of the statements included in the sample have been made by journalists (344 of a total number of 586 statements). The following graph shows the different forms of reporting that occurred in the four newspapers of the sample. Each bar stands for one of the newspapers and is subdivided into different genres:

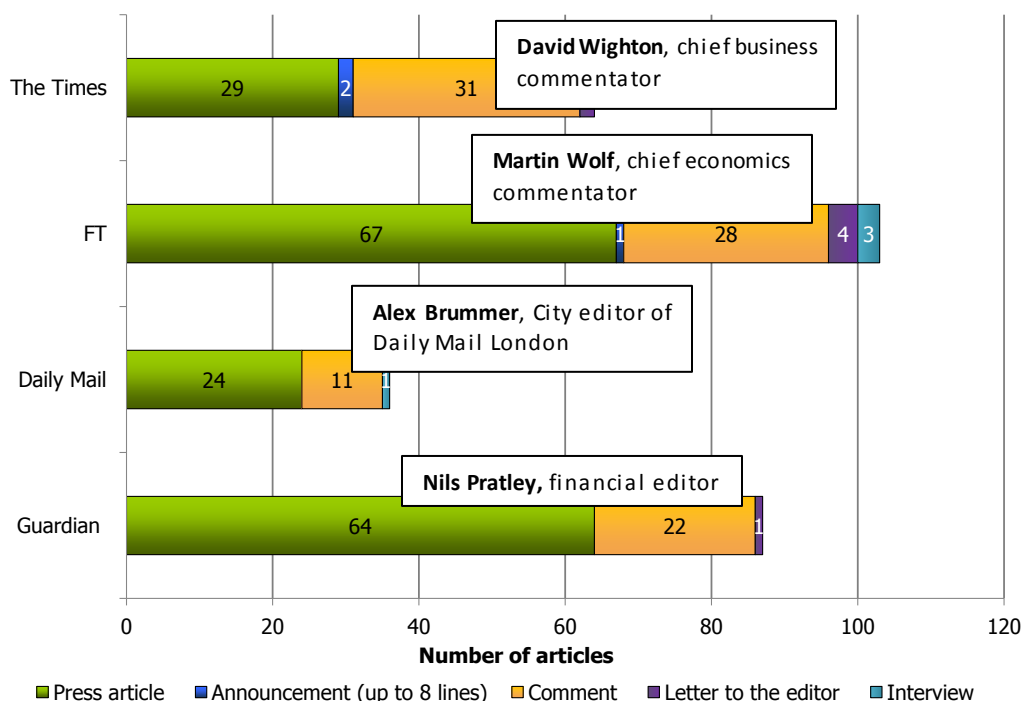


Chart 10: Genre per newspaper (n = 290 articles)

The number of press articles is very high in each of the newspapers. Of more interest for this thesis is, however, the equally high number of comments in each of the publications. Contrary to press articles which present information in an

objective and descriptive manner, comments provide a forum for journalists to express their opinion and to add a personal note to the topic at hand. Comments are essentially the reason why Hall (1993:288) describes the press as ‘both a mirror of public opinion and a magnifying glass for the issues that it takes up.’ The high number of comments on banking regulation represented in the sample indicates that the issue has provoked a significant echo in the press – and hence the opportunity for economic journalists to enrich the public debate with additional ideas and arguments beyond the general news coverage.

Each newspaper has a ‘leader of the pack’ in terms of economic news coverage, listed in the graph’s description fields. Due to the fact that the FT is considered one of the world’s most prestigious newspapers in terms of business and finance, the thesis will use a comment written by its chief economics commentator, Martin Wolf, to demonstrate the impact journalists can have on shaping and influencing the public debate. To this end, the concept of process tracing briefly introduced in chapter 3.3 will be used to trace the chronological appearance of a certain issue. A condition for the proper application of process tracing is the detection of a temporal sequence: a specific argument is first raised at time zero and subsequently process-traced over a certain period of time to control whether it has been taken up by other actors. To be convincing as a powerful opinion-forming force, the media statement would have to precede that of other (public) figures.

At a comparatively early stage of the election campaign, on 20 April 2010, Martin Wolf published its comment ‘The challenge of halting the financial doomsday machine’ in the Tuesday issue of the FT. Contrary to the neoliberal economic paradigm of the recent decades, he questioned the economic soundness of the financial services sector by asking: ‘Does today’s engorged financial system produce gains that justify these costs [of government support for banks]?’ In outlining preventive measures against future financial crises, Martin Wolf put into place three ideas that circulated in the financial community:

- *‘The idea of “just say no” to bailouts is a delusion.’*
- *‘There is much more to effective reform of the financial system than tackling the “too big to fail” problem.’*
- *‘Halting the financial doomsday machine is going to involve fundamental changes in policy towards – and the structure of – the financial system.’*

In the following, a timeline will be used to control if the arguments which Martin Wolf has raised in his comment (‘time zero’) have been taken up by other actors in the weeks that followed.

*‘Halting the financial doomsday machine is going to involve fundamental changes in policy towards – and the structure of the financial system – instead of merely tackling the “too big to fail” problem.’ –*

**Original argument made by Martin Wolf (Financial Times, 20 April 2010)**



*'But there's one big reservation: solving the "too big to fail" problem requires more than heavier taxation [...]. Structural reform should accompany tax changes.'* –  
**Nils Pratley (Guardian, 21 April 2010)**



*'But no, the irony is that while we are immersed in an electoral process which is all about bringing those in power to account, the unaccountable financial system that is responsible for the painful years which lie ahead - of unprecedented cuts and the political conflict that will result - goes largely unchallenged. If you think that's a bit of hyperbole, read the Financial Times' Martin Wolf on the "financial doomsday machine" [...] when he concluded: 'We need to challenge radically some of the assumptions of the last 30 years which have been deep-rooted drivers of financial instability.'* –  
**Madeleine Bunting (Guardian, 3 May 2010)**



*'Speaking for the first time since taking on the role, he [Vince Cable] said he thought RBS and Barclays should be broken up to stop them posing a risk to the whole economy. "The implicit assumption is that there is a need for structural consequences for the financial sector", said Cable, who has taken his lead from the Bank of England governor, Mervyn King.'* –  
**Vince Cable (Guardian, 15 May 2010)**



*'The new consensus states that Britain has an overextended and unstable financial sector that needs cutting down to size. This theory is enthusiastically promoted by the Governor of the Bank of England and the head of the Financial Services Authority, as well as by the new Government. The problem is that it is almost certainly wrong.'* –  
**Anatole Kaletsky (The Times, 19 May 2010)**

The timeline shows that on 20 April 2010, Martin Wolf has raised a comparatively new argument<sup>24</sup> in which he called for a fundamental change in the structure of the financial system instead of focusing solely on the 'too big to fail' problem connected

<sup>24</sup> The argument was raised in the stated form for the first time in the sample at hand. However, it is necessary to keep in mind that the sample only covers three months and hence a very limited scope when it comes to the public debate on banking regulation. It is of course likely that the argument has already been raised outside the period of investigation.

to the splitting up of systemically relevant banks. In a temporal sequence, the argument has been taken up by two other main newspapers and also reached the political arena when Vince Cable, newly elected Business Secretary of the Liberal Democrats, called for structural reforms in the financial services sector which he connected to the risks that large bank conglomerates pose for the economy as a whole. Although this is only a single example, it indicates that the FT, the only newspaper in the sample with a clear focus on business and finance, dominates opinion within the media on financial market issues. However, in order to make a convincing case about the opinion-forming role of the media, the range of analysis needs to be extended to include not only different newspaper commentators and public officials but also representative interest groups. The impact of the media on societal actors, one of the theoretical expectations formulated in chapter 3.1, has not been verified so far.

For this reason, the thesis will now focus on the Future of Banking Commission<sup>25</sup> and analyse how certain proposals issued by the Commission have been perceived by the media. Did the newspapers engage in communicative action with other public actors that supported or opposed those proposals? Did the papers contribute to the articulation of new ideas by providing a forum for different societal actors to exchange views and information?

Initiated by the consumer lobby group Which?, the Future of Banking Commission was set up in the wake of the financial crisis to find ways of making banks fairer, safer and more accountable to customers. The Commission submitted its final report to the coalition government on 13 June 2010 and stated that it would 'continue to campaign to ensure that politicians and bankers understand what really matters to consumers' (Future of Banking Commission). The Commission is unique in so far as it is the only interest group in the sample that explicitly advocates consumer interests and hence questioned not only different City grandees like Mervyn King, Governor of the BoE, or the chief executives of the biggest banks, but also sought the opinions of the public. On 19 April 2010 ('time zero'), the Guardian's industrial editor Tim Webb published a press article about a proposal issued by the Commission:

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<sup>25</sup> The membership of the Commission was composed of several Members of Parliament, inter alia the former Treasury spokesman of the Liberal Democrats, Vince Cable, Which? chief executive Peter Vicary-Smith, Philip Augar, formerly a Group Managing Director at Schroders', a global asset management company, and now a writer on the financial services industry, Claire Spottiswoode, former Director General of OFGAS, the government regulator for electricity markets in the UK, David Pitt-Watson, Chair of Hermes Focus Asset Management, and Roger Bootle, Managing Director of Capital Economics. Reverend Christopher Jamison, Abbot of Worth, acted as an advisor. For more detailed information on the Commission see <http://www.which.co.uk/campaigns/personal-finance/the-future-of-banking-commission/> (last accessed July 13, 2013)

*'Bankers should be forced to pledge to behave ethically – just as doctors take the Hippocratic Oath. [...] Bonus packages should be tailored to reward bank employees who adhere both to the spirit and the letter of such a code of conduct.'* –

**Future of Banking Commission (Guardian, 19 April 2010)**

In the same article, Tim Webb stated his own opinion on the proposal and quoted other societal actors:

*'A code of conduct would require bankers to take into account the impact of their activities on the wider economy and on society, rather than focusing on making a short-term profit.'* –

**Tim Webb, journalist (Guardian, 19 April 2010)**

*'It's not ethics that were the cause of the credit crunch – international standards on capital and setting risk were wrong. Ethics [...] played only a small part.'* –

**Spokesman for the British Bankers' Association (Guardian, 19 April 2010)**

*'It sounds a beautiful idea. But I have zero faith that making everyone write a promise will work in practice. The people with the least scruples make the most money already and would just find new ways to get round the rules.'* –

**Kate Smurthwaite, former investment banker and hedge fund manager (Guardian, 19 April 2010)**

*'It would take banks beyond irresponsible profit seeking. It won't change the culture overnight but it would introduce a degree of accountability, a standard against which to measure bankers' behaviour.'* –

**Jonathan Bartley of Ekklesia, a religious and ethics thinktank (Guardian, 19 April 2010)**

One day later, on 20 April 2010, the Daily Mail published an article about the Future of Banking Commission, too. Without referring to the 'code of conduct' directly, Richard Dyson, deputy personal finance editor at the Mail on Sunday, highlighted 'banks mis-selling excesses' and quoted a public witness to the Commission:

*'People go into their bank branches expecting to get good advice. In fact they are confronted with people whose sole incentive is to clinch a sale. [...] If banks stopped the hard-sell culture, there would be far fewer of the terrible financial problems of the past.'* –

**Jane, 52, public witness to the Future of Banking Commission (Daily Mail, 20 April 2010)**

Two weeks later, on 5 May 2010, the Guardian published a response to Tim Webb's press article of 19 April 2010 which was written by Tony Manwaring, chief executive of the business thinktank 'Tomorrow's Company'.

*'Our banking industry should work within an ethical framework. To avoid another credit crunch we cannot rely on regulation alone. [...]The proposal from a cross-party commission for a "Hippocratic oath" directly addresses the need to reconcile values and value creation. And though the sceptical response is perhaps not surprising, our own organisation has called for an overarching "statement of principles" to cover all aspects of the financial services industry, to which all parties could commit. [...]We linked our proposal to the creation of a forum for self-regulation, at which leaders from all parts of the investment system would address issues key to the building of public trust.'* –  
**Tony Manwaring, chief executive of 'Tomorrow's Company' (Guardian, 5 May 2010)**

The comment was also published on the Guardian's website and triggered an immediate echo in the online community (43 partially controversial comments on the same and following day).<sup>26</sup> Four more articles were published by different newspapers after the Commission issued its final report on 13 June 2010. Although the term 'Hippocratic Oath' was not taken up again, The Times (14 June 2010) published a summary of the Commission's claims including:

*'Ban sales incentives for branch staff and link bonuses to non-financial targets, such as customer satisfaction and complaints handling. [...] Introduce a new bank professional standards body similar to medical and legal bodies to "strike off" bad apples.'* –  
**Future of Banking Commission, final report (The Times, 14 June 2010)**

John Kay, visiting professor at the London School of Economics who has been writing a column on economics and business for the FT since 1995, appreciated the work of the Commission regarding consumer protection:

*'The value of the financial services industry lies in what it does for the rest of the economy, not in what it does for itself. The report's case for structural reform is based not on the needs for the banking industry but on the needs of other stakeholders. [...]The power of the Which? Report is that it represents the views of a wider community. Not before time.'* –  
**John Kay, economic commentator (Financial Times, 16 June 2010)**

### **Summary: The Media as Pacesetter for New Ideas**

When assessing the explanatory power of the method used in this subchapter, it has to be kept in mind that the results are not empirically verifiable – at least not within the limits of this thesis or the data included in the sample at hand. Instead of an empirical analysis as conducted in the previous chapters, the temporal sequence of a selected issue has been traced in order to examine whether the arguments initially raised by one actor have been taken up by others over the course of time. In order to verify the empirical validity of the analysis, the temporal sequence of

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<sup>26</sup> See <http://www.guardian.co.uk/commentisfree/2010/may/05/banking-industry-ethical-framework-regulation#start-of-comments> (last accessed July 13, 2013)

arguments would have to be tested by using several examples over a longer period of time.

The analysis has produced two main findings: first, when Martin Wolf, chief economic commentator at the FT, stated an opinion on restructuring the financial services industry, his argumentation was taken up by two other main papers and spilled over to the political arena. On this basis it is possible to argue that the FT dominates opinion within the media on financial market issues and has the ability to articulate ideas capable of mobilizing support among political officials. The second thing to verify was the impact of the media on societal actors, representative interest groups in particular. The analysis has shown that a certain proposal issued by the Future of Banking Commission has been taken up and commented on by a journalist at the Guardian, whose article simultaneously provided a forum for other societal actors to express their opinion. The fact that two weeks later the Guardian published a comment written by Tony Manwaring of 'Tomorrow's Company' in which he directly responded to the Commission's proposals indicates that the newspaper indeed engaged in communicative action with other public actors and enabled the exchange of opinions and information. Hence it is possible to conclude that the media are able to influence the public debate among societal actors by setting certain topics on the agenda and providing a forum for public discussions. The fact that both Tim Webb at the Guardian and John Kay at the FT commented on the Commission's proposals indicates that they adopted a clear position which goes beyond the general objective news coverage. However, with regard to the impact of the media on societal actors it became clear that the newspapers provide a forum for the exchange of opinions rather than actually acting as pacesetter for new ideas.

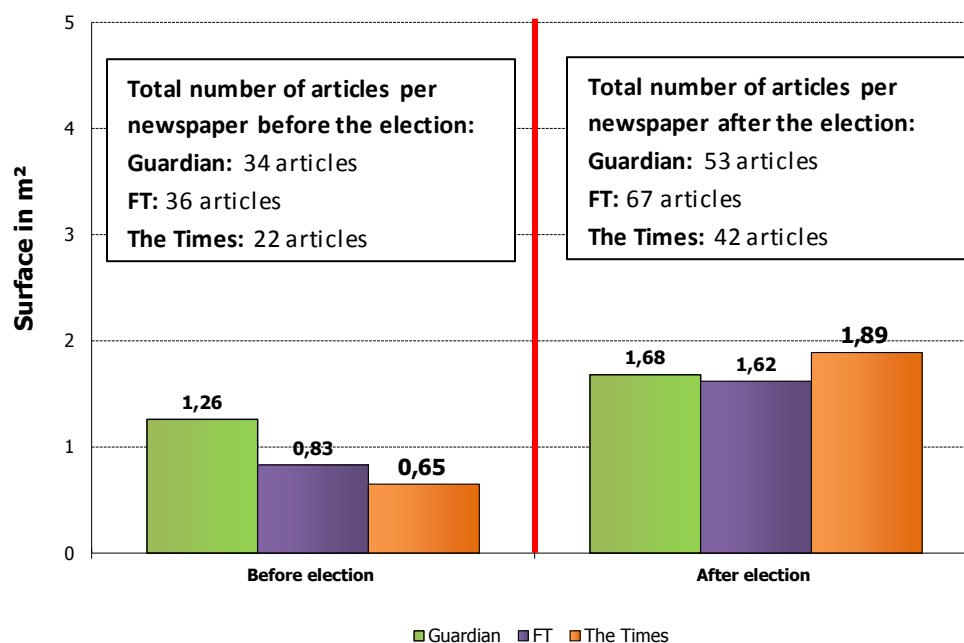
### **5.5 Did the newspaper's political orientation influence the news coverage? How much space did the different newspapers dedicate to the topic before and after the election (Q5)?**

The four daily newspapers included in the sample have been deliberately chosen in order to cover a broad spectrum of political allegiances and hence to depict the public debate on banking regulation as comprehensively as possible. The question whether the newspaper's different political orientation (which have already been outlined in chapters 4.2 and 5.2) have influenced the news coverage has to be answered in two different ways. On the one hand, it is possible to argue empirically. To this end, the following graph shows how much space the different newspapers have dedicated to the topic before and after the general election. On the other hand, a descriptive-interpretative analysis will take some of the previous findings into account and focuses on the contents and readerships of the different newspapers instead of relying on quantifiable data alone.

The empirical analysis looks again at the articles as a whole (object coding). It focuses on the question how much importance the individual newspapers have attached to the issue banking regulation and whether the scope of the news



coverage has changed after the election on 6 May 2010. For the analysis, three original newspapers could be ordered on microfilm – hence it was possible to measure the exact scope of the articles.<sup>27</sup> In the case of the Daily Mail it was only possible to gain access to the online archive via the newspaper's website. Due to the fact that the original articles were not available for the analysis, the Daily Mail could not be included in the following evaluation. Each column in the graph stands for one newspaper: Guardian (green), FT (purple), The Times (orange) and depicts the total surface of the news coverage in m<sup>2</sup>. The date of the general election is indicated by the red line.



**Chart 11: Surface of news coverage before and after the election, n =254 articles**

The graph shows that the scope of the news coverage has increased in each newspaper after the general election. Before May 6, the Guardian dedicated most space to articles about banking regulation; after the general election, The Times reported most comprehensively about the issue. Although there is no significant difference between the three newspapers in terms of the scope of the news coverage, one detail is striking: despite the fact that the FT published most articles about banking regulation before and after the general election, both the Guardian and The Times dedicated more space to the issue and hence reported in a more detailed manner about the various aspects presented in the previous subchapters. This observation is underlined by the fact that 66 per cent of all the articles about banking regulation published in the Guardian were accompanied by one or more pictures; in The Times this value was 55 per cent. In contrast, only 38 per cent of the articles published in the FT were accompanied by one or more pictures. The scope of the news coverage and the proportion of pictures do not say anything about the content; they solely suggest that the FT focused more on the textual preparation of

<sup>27</sup> The calculation formula for each newspaper can be found in the codebook.

the information while the other two newspapers used more graphs and pictures to attract the reader's attention and facilitate the understanding of the complex issue banking regulation.

### **Did the Newspaper's Political Orientation Influence the News Coverage?**

This question cannot be answered empirically but has to take some of the previous findings into account and especially look at the contents and target groups of the four different newspapers.

The most significant indicator that the newspaper's political orientation influenced the news coverage could be found in chapter 5.2 (Chart 6: 'Newspapers as forums for different parties'). The Guardian is the only newspaper in the sample with a clear liberal to centre-left allegiance and hence gave more room to quotes from Labour and the Liberal Democrat party than to statements made by representatives of the Conservative party. In contrast, the other three more right-leaning newspapers provided a forum for the Conservative party rather than for Labour or Liberal Democrat representatives. The other graphs presented in the previous subchapters displayed no significant differences between the four newspapers: all of them concentrated on the same key topics before and after the general election and used a comparable number of comments to express the journalists own opinion on the issues at hand and to enrich the public debate with additional arguments that go beyond the general objective news coverage. Regarding the focus of the news coverage, the most significant differences can be determined between the FT and the Daily Mail. The FT as one of the world's leading financial newspapers is mostly read in professional circles and prepares complex information for financial experts while the Daily Mail as a daily tabloid newspaper concentrates on the British (lower) middle class. This fact is on the one hand underlined by the paper's colloquial language ('Time to give the Old Lady her job back', 0206012); on the other hand by the Daily Mail's central role in compiling proposals for the report of the Future of Banking Commission which presented its findings to the new government five weeks after the general election. The Daily Mail collected reader's views on reforming the banking sector; compiled and submitted them to the Commission:

- *'Daily Mail, backed by our excellent readers, will do all we can to ensure the key proposals of the commission are implemented. The banking industry must change for the better. Nothing else will do' (0206002).*

The paper's finance editor was himself a witness before the Commission, giving further voice to banking changes that its readers wanted to see (cf. Mail Online, 14 June 2010). In doing so, the Daily Mail is the only newspaper in the sample that has given its readers the opportunity to submit their own experiences of the banking crisis and that has helped the Future of Banking Commission to incorporate the views of the public on how the banks can better serve customers.

Despite upholding traditional conservative values, the Daily Mail sided with the public instead of issuing a clear recommendation for an individual party. Of all four newspapers, the Guardian and The Times most expressly committed themselves to their political allegiance and sided with the respective party:

- *‘Surveying the wider agenda and the experience of the past decade, however, there is little doubt that in many areas of policy and tone, the Liberal Democrats have for some time most closely matched our own priorities and instincts. [...] A newspaper that is proudly rooted in the liberal as well as the labour tradition [...] cannot ignore such a record. If not now, when? The answer is clear and proud. Now.’ (Guardian, 1 May 2010)*
- *‘The economy is broken and so is politics. It is time for a change, in both the philosophy and the style of government. It is time for us to believe in the power of the individual, the strength of society and the unique promise of this country. [...] David Cameron has shown the fortitude, judgement and character to lead this country back to a healthier, stronger future. It is time, once again, to vote Conservative.’ (The Times, 1 May 2010)*

## **6. Regulatory Change – What Happened After the Election?**

The aim of this chapter is to use a document-based analysis to depict the actual regulatory reforms that have taken place after the coalition government came into power in May 2010. This step serves to put the findings of the previous media analysis into perspective and thus to demonstrate the impact of the independent variable on the political reality of financial regulation in the United Kingdom. The media analysis was able to provide information on the shape and extent of the public debate on post-crisis banking regulation. However, in order to get an as complete picture as possible of the regulatory developments in the UK, it is necessary to examine in how far the policy reshaping announced by political officials in the media as well as the opinions and proposals expressed by different actors have been translated into actual regulatory reforms.

The scope of the thesis is too limited to look at the whole range of policy measures the new government has adopted in the area of financial regulation. Instead, the focus will be on the institutional reconstruction of the regulatory regime announced by Chancellor George Osborne in his first Mansion House Speech on 16 June 2010, and on the final report of the Independent Commission on Banking that was established in June 2010 to consider the structure of the UK banking sector, including the question of whether to separate retail and investment banking, and questions of competition in banking.

### **6.1 Institutional Reform – The New Financial Regulatory Architecture**

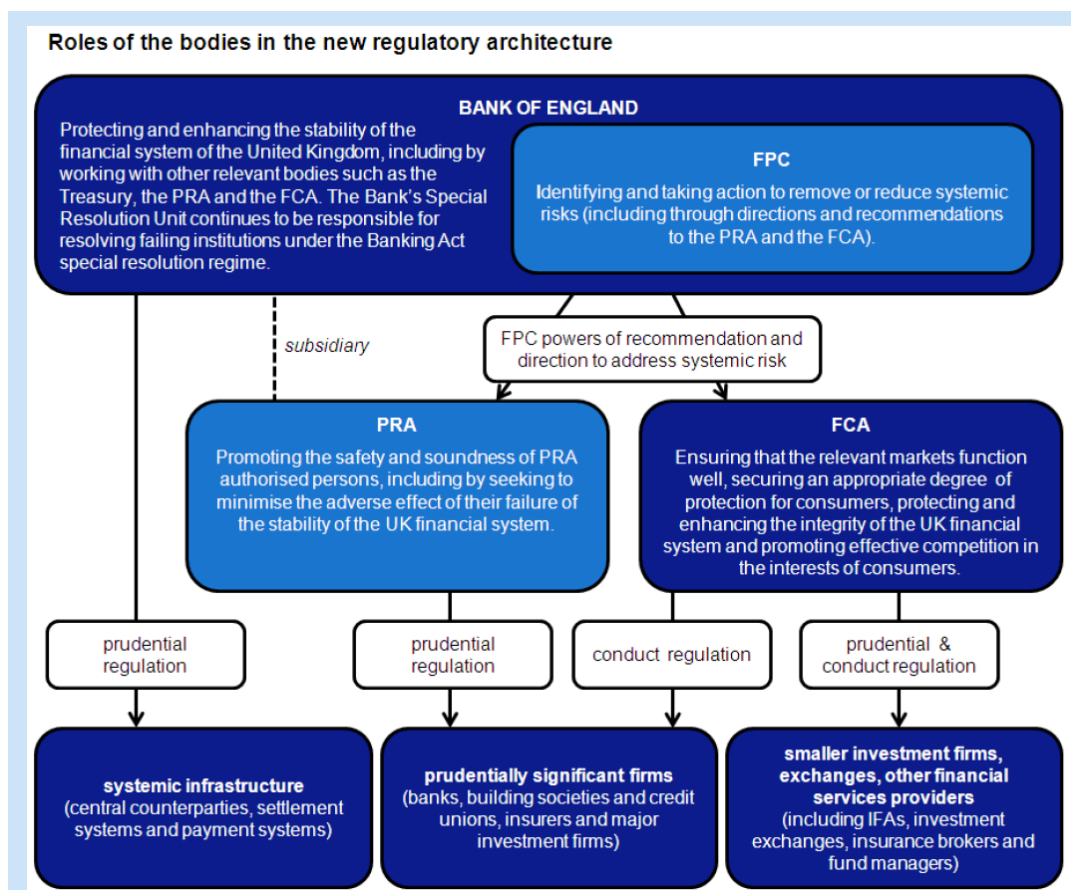
Chancellor George Osborne’s proposals for a new financial regulatory architecture that would abolish the FSA and shift all regulatory power back to the Bank of England have been discussed in detail in the news coverage of all four newspapers in the sample. Due to the fact that the previous chapter has only given a broad

overview of the regulatory reforms, in the following the key institutional changes announced by the Chancellor at the Mansion House Speech on 16 June 2010 will be depicted in more detail before examining in how far the new regulatory system is operational by now.

The institutional changes proposed by George Osborne involve the creation of three distinct institutions:

- A Financial Policy Committee (FPC) is to be established within the Bank of England, *'with responsibility for macro-prudential regulation, or regulation of stability and resilience of the financial system as a whole'* (HM Treasury 2011:8). The FPC would hence be responsible for the identification and monitoring of systemic risks within the financial sector – a factor that was said to be a major weakness of the old regulatory system. The Treasury also tried to appease the financial industry which feared that the FPC's macro-prudential functions may impact on the capacity of the financial sector to support the economy. The Treasury hence proposed to add an additional clause to the FPC's statutory objective which reads as follows: *'This does not require or authorise the Committee to exercise its functions in a way that would in its opinion be likely to have a significant adverse effect on the capacity of the financial sector to contribute to the growth of the UK economy in the medium or long term'* (HM Treasury 2011:11).
- Micro-prudential (firm-level) regulation of financial institutions that manage significant risks on their balance sheets is to be carried out by a Prudential Regulatory Authority (PRA), an operationally independent subsidiary of the Bank of England (cf. HM Treasury 2011:8).
- Finally, responsibility for conduct of business regulation is to be transferred to a new specialist regulator, the Financial Conduct Authority (FCA), which should largely take over the responsibilities for consumer protection formerly administered by the FSA (cf. Johal et al. 2012).

The following graph gives an overview of the complete new regulatory structure proposed by the Treasury in June 2010:



Source: HM Treasury (2011:9): A new approach to financial regulation: building a stronger system.

A crucial step for the implementation of the new financial regulation framework has been the adoption of the **Financial Services Act 2012**. The Bill amends the Bank of England Act 1998, the Financial Services and Markets Act 2000 and the Banking Act 2009 and gives effect to the regulatory reforms outlined above. From 1 April 2013, the FSA has been officially replaced by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). Additionally, the Bank of England now has the overall responsibility for financial stability and is assisted by its Financial Policy Committee (FPC), which has been given powers of recommendation and direction to the FCA and PRA to address systemic risk (cf. Clifford Chance 2013). The organisational structure and mandates of the three new institutions looks as follows:

### Financial Policy Committee (FPC)

The FPC is a sub-committee of the Court of Directors of the BoE, consisting of the Governor of the Bank (Mark Carney since 1 July 2013), the Deputy Governor of the Bank, the Chief Executive of the FCA, a member appointed by the Governor of the Bank after consultation with the Chancellor, four members appointed by the Chancellor, and a representative of the Treasury (cf. Clifford Chance 2013). The FPC's task is to correct one of the main flaws of the former tripartite regulatory system (consisting of the FSA, the BoE, and the Treasury) in which no single institution was mandated with the responsibility and powers to monitor the system

as a whole, identify destabilising trends, and respond to them with concerted action. Charged with the job of setting macro-prudential policy, the FPC's duty is to make sure that stability of the system as a whole 'does not fall by the wayside, into the gap between monetary policy at one end of the spectrum and the regulation of firms at the other' (Tucker 2011: 6). To this end, one of its tasks is to 'remove the punchbowl from future financial sector parties' (Haldane 2009:2) and increase the amount of liquidity and capital banks are required to hold. On the other hand, the FPC will release the brakes 'when credit is stalled at the roadside. That might call for a loosening of the regulatory reins to inject some life into credit markets' (ibid.).

### **Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA)**

With the entry into force of the Financial Services Act on 1 April 2013, the FSA finally ceased to exist. Most aspects of its former role are now performed by two new authorities: the PRA, as part of the BoE, becomes the UK's prudential regulator for banks, building societies and credit unions, insurers, and major investment firms. Contrary to the prudential role of the PRA, the FCA is responsible for the protection of consumers as well as the conduct regulation of all financial services firms, especially those not supervised by the PRA, for example asset managers. The FCA operates as an independent body separate from the government, financed by fees paid by the financial services industry (cf. BoE Quarterly Bulletin 2012 Q4).<sup>28</sup>

The FCA is governed by a Board (current Chairman is John Griffith-Jones) which supervises the operational business and holds the Authority accountable for the way it works. To this end, it delegates certain functions and powers to a number of committees. The operational business of the FCA is executed by the executive management team (Chief Executive is Martin Wheatley) which is subdivided in several divisions to meet the targets of consumer protection, improving market integrity, and the promotion of competition in the interest of consumers. The FCA has a wide range of rule-making powers. Its enforcement approach is based on the principle of credible deterrence; to this end, it builds on the strategies already practised by the FSA in the aftermath of the financial crisis like 'bringing more enforcement cases and pressing for tough penalties for infringements of rules to reset conduct standards; pursuing more cases against individuals and holding members of senior management accountable for their actions; pursuing criminal prosecutions, including for insider dealing and market manipulation' (FCA 2013). In addition, the FCA has the power to make product intervention rules and to force firms to withdraw or change misleading promotions with immediate effect and publish such decisions.

Contrary to the standalone FCA, the PRA's objective to promote safety and soundness and the Bank of England's financial stability objective are

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<sup>28</sup> The fact that the body operates independently from the government but is eventually paid by those it is supposed to regulate is likely to raise concerns about regulatory capture. This point has to be kept in mind but cannot be discussed in detail within the limited scope of this thesis.

complementary. Having the PRA as part of the Bank, with close links to the FPC, allows the authorities to combine firm-specific supervision with work to protect and enhance the resilience of the financial system as a whole (cf. BoE Quarterly Bulletin 2012 Q4). The Chief Executive Officer of the PRA is simultaneously a member of the FPC and a Deputy Governor of the BoE (currently Andrew Bailey, BoE Deputy Governor for Prudential Regulation). The Authority has two statutory objectives: to promote the safety and soundness of financial institutions at the level of individual firms and, specifically for insurers, to contribute to the securing of an appropriate degree of protection for policyholders. In addition, individual firms are required to meet certain statutory 'Threshold Conditions' to be permitted to engage in activities regulated by the PRA. These requirements include maintaining appropriate capital and liquidity, and having suitable management. A key principle underpinning the PRA's approach is that it will not seek to operate a 'zero-failure' regime but will seek to ensure that 'any firms that fail do so in a way that avoids significant disruption to the supply of critical financial services' (BoE Quarterly Bulletin 2012 Q4:2). The PRA advances its objectives using two key tools: first through regulation, it sets standards or policies that it expects firms to meet. Second through supervision, it assesses the risks that firms pose to the PRA's objectives and, where necessary, takes action to reduce them (cf. BoE Prudential Regulation Authority).

Not all of the legislative changes being made by the Financial Services Act 2012 were scheduled for implementation on 1 April 2013. Changes to the Banking Act 2009, including the extension of the special resolution regime<sup>29</sup> to certain UK investment firms, group companies of UK banks, UK investment firms and clearing houses, have not yet been implemented (the Treasury refers to 'summer 2013' as a possible implementation date; cf. Clifford & Change 2013).

### **Summary: The New Financial Regulatory Architecture**

The previous examination of the new regulatory system has shown that the institutional changes outlined by Chancellor George Osborne in his first Mansion House Speech on 16 June 2010 have been implemented to a large extent by now. All of the three new institutions have meanwhile entered into operation and delivered first reports on their work. However, in how far the new institutions will actually break with the old regulatory culture remains to be seen. A start has surely been made: the statutory objectives of all three institutions aim at correcting the flaws of the former tripartite regulatory regime between the FSA, the BoE and the Treasury: the FPC is now explicitly in charge to monitor and protect the stability of the financial system as a whole while micro-prudential supervision of individual firms and consumer protection are covered by the PRA and the FCA in a 'twin peaks'

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<sup>29</sup> The Banking Act 2009 created a Special Resolution Regime (SRR) which gives the UK authorities a permanent framework providing tools for dealing with failing UK banks and building societies. For more information:  
[http://www.bankofengland.co.uk/financialstability/Pages/role/risk\\_reduction/srr/default.aspx](http://www.bankofengland.co.uk/financialstability/Pages/role/risk_reduction/srr/default.aspx) (last accessed July 4, 2013)



model. The fact that the City influenced the FPC's statutory objectives in its own favour (cf. p. 41) and is responsible for the funding of the FCA indicates that the dominance of the financial market in the UK may have been limited to a certain extent but in no way prevented completely. Even though the regulators speak about more aggressive and intrusive approaches, it remains to be seen whether the regulatory practices alter correspondingly – especially at a time when the immediate shockwaves triggered by the financial crisis slowly fade away.

## **6.2 Structural Reform – The Independent Commission on Banking**

The institutional changes to the financial regulatory architecture outlined above have been announced and implemented to a large extent by government officials in the Treasury. The central aim of this chapter is, however, to examine whether external voices from other actors have been translated into actual policy. Throughout the previous decades, the hierarchical character of British administration – the central control exercised by the Treasury in particular – as well as the narrow range of staff recruitment undermined the potential experimentation with innovative ideas. As Hall (1989:63) argues: 'In the face of well-established channels of economic advice there was little chance for radically different ideas to emerge from within the British government, and it was unlikely that ideas emerging from ad hoc commissions could provide the basis for policy departures.' Against this background, the work of the Independent Commission on Banking is of particular interest because it brought together actors from various backgrounds and was mandated to investigate structural reforms the newly elected coalition government was not able to agree on in its initial five year-programme.

The Commission was chaired by Sir John Vickers who 'has long been a core member of the British economic establishment' (FT, 16 June 2010). The former president of the Royal Economic Society has been involved in supervising both overall economic policy as chief economist of the BoE, and detailed regulation of individual industries as Chairman of the Office of Fair Trading. Sir John Vickers made his reputation in public policy circles when he argued in favour of competition and effective regulation during the Thatcher years of privatisation and deregulation. His appointment was especially welcomed by the UK's business lobbying organisation CBI. Other members of the Commission include Claire Spottiswoode, former member of the Which? Future of Banking Commission; Bill Winters, a former investment banker at JP Morgan whose presence on the Commission raised City hopes that someone would advocate investment banks and argue that their activities benefit society; Martin Taylor, chief executive of Barclays between 1995 and 1998 who told the Which? Future of Banking Commission that 'investment banking activities of a universal bank were at all times parasitic on the retail bank balance sheet' (The Times, 14 June 2010); and finally Martin Wolf, chief economic commentator at the FT who was intended to 'bring the voice of independence to the Commission' (The Times, 17 June 2010.) and already stated in one of his



columns that part of the answer to the financial crisis should be structural change (cf. chapter 5.4).

The Commission's task was to review and make recommendations on the structure of the banking system and on how it could be reformed to increase competition and maintain financial stability. In September 2011 it delivered its final report. Instead of full separation of retail and investment banking – one of the most radical reform proposals advocated in particular by Vince Cable – the Commission opted for a less radical solution and recommended that 'a high ring-fence should be placed around vital retail banking activities in the UK' (Independent Commission on Banking 2011). In summary, those banks should contain all deposits from individuals and small and medium enterprises (SMEs) and not be allowed to engage in any investment banking activities or provide services to financial companies or customers outside the European Economic Area (EEA). Within these constraints, the retail banks are allowed to take deposits from larger companies and provide non-financial larger companies with intermediation services such as simple loans and – under certain conditions – are allowed to pay dividends as long as they maintain adequate capital levels which will preserve diversification benefits (cf. *ibid*, pp. 29-30).

In June 2012, the Treasury published a White Paper 'Banking Reform: Delivering Stability and Supporting a Sustainable Economy'<sup>30</sup>, in which it set out its proposals for reform of the banking sector, based on the recommendations issued by the Commission. The consultation on the White Paper closed in September 2012. The responses were used to develop the **Banking Reform Bill**<sup>31</sup>, the latest piece of the legislative puzzle which is currently going through Parliament and due to come into force in early 2014 (cf. HM Treasury 2013). The Bill confirms the introduction of a 'ring-fence around the deposits of people and small businesses, to separate the high street from the dealing floor and protect taxpayers when things go wrong'. Additionally, it

- 'makes sure the Prudential Regulation Authority (PRA) can hold banks to account for the way they separate their retail and investment activities, giving it powers to enforce the full separation of individual banks;
- gives depositors, protected under the Financial Services Compensation Scheme<sup>32</sup>, preference if a bank enters insolvency;
- gives the government power to ensure that banks are more able to absorb losses;

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<sup>30</sup> The full document can be found here: <https://www.gov.uk/government/publications/banking-reform-delivering-sustainability-and-supporting-a-sustainable-economy> (last accessed July 4, 2013)

<sup>31</sup> The full document can be found here: <http://www.publications.parliament.uk/pa/bills/cbill/2013-2014/0002/14002.pdf> (last accessed July 4, 2013)

<sup>32</sup> The Financial Services Compensation Scheme (FSCS) is a compensation fund of last resort for customers of authorised financial services firms. For more detailed information see <http://www.fscs.org.uk/> (last accessed July 5, 2013)

- increases competition between financial services firms, including making it easier for customers to switch their current accounts with a 7-day switching service introduced in September 2013 in order to make the financial system more responsive to customers' (ibid.).

### **Summary: The Independent Commission on Banking as Marketplace for Economic Ideas**

The previous subchapter has shown that the Independent Commission on Banking provided a forum for actors outside the government machinery to express their opinion and let their expertise flow into the political decision-making process. The membership of the Commission confirms the theory of a pluralist system of interest intermediation between the state and society and hence allots a significant role to the political system which Hall (1993:288) defines 'as the complex of political parties and interest intermediaries that stand at the intersection between the state and society in democratic polities.' The Commission formed an 'outside marketplace for economic ideas' (Hall 1993:289) in which City representatives, (former) regulatory officials, economic experts and independent journalists discussed what sort of structural features should mark the reformed banking system and whose recommendations found their way into the legislative policy-making procedure. The significant impact of expert advice on financial regulation policy indicates that the hierarchical control exercised by the Treasury throughout the previous decades has loosened up. Consequently, the institutional parameters of British administration have changed in favour of epistemic communities which now have a certain influence inside the administrative apparatus of the government.

Next to its diverse membership, a further significant advantage of the Commission was that it defused one of the most divisive policy problems faced by the coalition government: while the Conservative party wasn't willing to abandon its profile as supporter of the City and rejected any significant structural reform, the Liberal Democrats strongly advocated a complete separation between retail and investment banking. The Commission's recommendations for ring-fencing were immediately welcomed as acceptable compromise by the government, namely Chancellor George Osborne.<sup>33</sup> The fact that the Commission was an advisory body whose reports had no statutory force means that its recommendations have to be embodied in legislation—a time-consuming process which allows the financial sector to mobilise its full lobbying capacity to influence the details of the legislation (cf. Johal et al. 2012). Since the Banking Reform Bill will come into force not before 2014, it remains to be seen in how far the banks succeed in lobbying on legislation

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<sup>33</sup> The complete speech in which Chancellor George Osborne announced his support for the recommendations made by the Commission can be found here: <https://www.gov.uk/government/speeches/speech-by-the-chancellor-of-the-exchequer-rt-hon-george-osborne-mp-at-the-lord-mayors-dinner-for-bankers-and-merchants-of-the-city-of-london-mansi> (last accessed July 5, 2013)

and shaping the final implementation of the Bill. In any case, the banks will have until 2018 to adapt to a new regime which means that at that time, no definite statements can be made about the actual extent of the structural reforms initiated by the Commission. What remains, however, is the impression that the British government and especially the Treasury has partly abandoned its dominant position in determining economic policy and is more open to expert advice from outside the government machinery. This impression was already strengthened by the establishment of the Which? Future for Banking Commission which was explicitly designed to give a voice to the interests of consumers. The Commission's proposals on consumer protection and competition in banking have been taken up by its former members Claire Spottiswoode and Martin Taylor and hence found their way into the final report issued by the Independent Commission on Banking in September 2011.

## **7. Reflection & Discussion**

The aim of this thesis was to analyse the public debate on post-crisis banking regulation in the UK in order to identify the underlying ideas and leitmotifs invoked by political parties to mobilise support for a policy change. The central question was whether the pre-crisis consensus on the need for a light-touch regulatory regime has – in the eyes of the public – been replaced by a new leitmotif in banking regulation that is able to restore public confidence in the ability of the government to cope with the effects of the financial crisis. Based on the assumption that the agenda-setting function of the media is a key determinant for the shape of the public debate between political parties and societal interest groups, a media analysis of four British daily newspapers was conducted in order to find indicators for a potential paradigm shift in the public debate on banking regulation that was initiated by the general election in May 2010.

The media analysis resulted in the following findings:

- The press fulfilled its agenda-setting function because it did not simply transmit the wide range of views to be found among political officials and economic experts about the direction of financial regulatory policy. Instead, all four newspapers in the sample emphasised three campaign issues which consequently dominated the public debate on post-crisis banking regulation. Of the three topics, especially the announcement of a new financial regulatory architecture in Chancellor George Osborne's first Mansion House speech reflected to what significant degree the political debate in the UK has shifted towards the need for a more prudential regulatory regime which is able to identify the financial market as a key source for macroeconomic instability and initiates countermeasures, if necessary.
- The media analysis as well as the subsequent document-based analysis of the regulatory reforms that have taken place after the general election have shown that a wide range of actors outside the government apparatus were

able to shape and influence the public debate on banking regulation by using the media as an intermediary to express their opinions. The fact that these 'outside voices' found their way into the legislative policy-making procedure demonstrate that the hierarchical control exercised by the Treasury has been loosened up in favour of a more diverse exchange of ideas and experiences between various actors.

- The party profiles identified in the news coverage suggest a shift in the traditional ideology of both Labour and the Conservatives: due to the fact that whilst in office, Labour never challenged the pre-crisis consensus on the need for a competitive City and a light-touch regulatory regime, the party was not able to cast off its business-friendly image during the election campaign and win back voter's confidence. The Conservative opposition, on the other hand, was forced to take on a much more radical position on financial reform than the party's traditional ideology would have suggested. This inversion of the traditional ideological positions has partly been relativized by the cautiously formulated coalition program issued after the election but nevertheless contributed to the public perception of an ideological shift in the party's position towards banking regulation.
- Regarding the articulation of opinions on financial market issues, the FT is the 'leader of the pack' among the newspapers in the sample and has the ability to articulate ideas capable of mobilising support among political officials. As one of the world's most prestigious newspapers in terms of business and finance, the FT has the necessary expertise to judge about financial market issues and is hence considered a reliable source by the other newspapers as well as politicians. With regard to societal actors, the media act as a forum for the exchange of arguments and opinions rather than as pacesetters for new ideas.

All of these findings suggest that the task of finding a new legitimizing narrative for post-crisis banking regulation has been the subject of extensive public debate during the weeks before and after the general election in May 2010. In this respect, the research question can be answered in the affirmative. Confronted with the challenge to win back public confidence and hence the goodwill of the electorate, political officials sought to include the opinions of interest groups, economic experts and journalists into the policy-making process; a fact that confirms Hall's theory of the role of ideas in politics (1993:290):

*'Organized interests, political parties, and policy experts do not simply "exert power"; they acquire power in part by trying to influence the political discourse of their day. [...] The resultant flow of ideas is an important dimension of the process in which policy is made.'*

The flow of ideas between various actors could be documented by the media analysis. The political discourse about the future orientation of banking regulation has changed indeed: the pre-crisis consensus on the vital role the City of London

plays for the British economy has been replaced by a narrative that focuses on (macro-)prudential regulation of the financial sector, fairness and justice for society and a greater say for the public in terms of consumer protection: 'The plan is to ensure that the banks support the people, instead of the people supporting the banks' (Chancellor George Osborne, FT, 17 June 2010). The document-based analysis of the actual regulatory reforms that have been implemented so far (as of July 2013) confirmed that the coalition government is in large part willing to make good on its electoral promises.

However, there are a number of limitations to these findings. First, the paradigm change in banking regulation was initiated by an exogenous shock to economic orthodoxy in the UK: the financial crisis was incompatible with the discursive terms of the prevailing liberal economic policy and consequently triggered a wide-ranging search for policy alternatives. But even though the financial crisis has destabilized a system of financial market regulation that has existed in the UK for more than thirty years, both the media analysis and the document-based analysis have shown that the influence of the financial markets on economic policy-making may have been restricted but not prevented completely. The key position of the City of London as the leading financial centre in Europe will always grant a significant degree of influence to financial elites – especially when the immediate shockwaves triggered by the financial crisis have faded away. Additionally, it is unlikely that the change in the ideological orientation of the Conservative party that was visible in the run-up to the general election is permanent. As already indicated several times, the Conservatives were forced to take on a radical position in terms of financial market regulation in order to distinguish themselves from the governing Labour party – hence out of necessity and not due to a fundamental change in ideological orientations. The news coverage in the weeks after the election revealed that the Liberal Democrats are the only party that has the ingredients for permanent policy innovation and the willingness to implement them while the Conservatives are not able – and willing – to deny their long-established allegiance to the City. For these reasons, it remains to be seen whether the 'big idea of macro-prudential policy [...]' will shape the intellectual and public policy debate over the next several decades' (Haldane 2009) or if political leaders will eventually succumb again to the temptations of competitive and profitable financial markets.

Lastly, it needs to be kept in mind that there are several limitations to the explanatory power of content analyses as well. The media analysis was able to depict the public debate on post-crisis banking regulation in the UK and to draw conclusions from that – whether the public actually agrees on the existence of a new leitmotif in banking regulation has ultimately to be the result of further surveys and investigations. Furthermore, findings which derive from a sample consisting of four daily newspapers and covering a time period of three months cannot have universally valid significance. Especially with regard to the proper application of process tracing as conducted in chapter 5.4, a larger sample covering a broader

period of time would produce more valid results and hence allow more explicit statements about the media as pacesetter for new ideas – an interesting field of research that could be investigated beyond the scope of this thesis.

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## Annex

### Party positions on banking regulation as outlined in the respective manifestos prior to the general election on 6 May 2010

Labour	Tories	Lib Dems
Global levy to require all banks to hold more and better-quality capital	Impose a levy on banks, unilaterally if necessary	Break up the banks, establish clear separation between low-risk retail and high-risk investment banking
Banks to draw up 'living wills' setting out how they could be wound up without taxpayers bail-outs	Pursue international agreement to prevent banks engaging in risky activities	Introduce a banking levy of 10 per cent on profits until break-up is complete
More powers to FSA if necessary to constrain executive remuneration	Scrap FSA, moving its consumer protection role to a new agency	Ensure the bonus system can never again put the financial system at risk or reward failure
More competition in the banking sector, breaking up banks in which government has a controlling stake	Put the Bank of England in charge of prudential supervision	Develop new financing for growing business with equity rather than debt, using regional sources, and without relying on the City
Create UK Finance for Growth to provide capital for growing business	Empower the Bank to crack down on risky bonus arrangements Increase competition in the banking industry	

### Codebook (as of 15 July 2013)

#### Framework Data

Name	Description/Instruction	Example
Object ID	All articles are numbered according to the following scheme: 'number of newspaper', 'month', 'serial number'	01 04 001 = The Guardian, first article in April
Medium	Which medium has published the article? 1 = The Guardian, 2 = Daily Mail, 3 = Financial Times, 4 = The Times	
Date	When has the article been published?	01.04.2010
Headline	Full headline of article	Don't shed a tear for the useless FSA

Journalist	What is the name of the journalist (first name, last name)	If letter to the editor: first name, last name, reader
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## Object Coding – full article

**Q5:** Does the newspaper's political orientation influence the news coverage? How much space do the different newspapers dedicate to the topic before and after the election?

Name	Description/Instruction	Example
Surface	Surface of the article (length x width x height): size of the copied articles must be converted into original size	The Guardian: (Column height in cm x 2) x 4,9 [original line width] x number of columns Financial Times: (Column height in cm x 2) x 4 x number of columns The Times: (Column height in cm x 2) x 4,9 x number of columns The Times (Comments p.2): (Column height in cm x 2) x 6,1 x number of columns
Pictures	Is the article illustrated? If no = 0, if yes =1,2, 3... number of pictures	
Genre	Which genre does the article have? 1 = press article, 2 = announcement (all articles up to 8 lines), 3 = Picture (with caption), 4 = comment, 5 = letter to the editor, 6 = interview	
Topic	What is the main topic of the news coverage? What is the article about? 1 = Restructuring the financial sector, 2 = Banker's bonuses, 3 = Female representation, 4 = Pre-crisis regulation, 5 = (Global) bank tax, 6 = Party manifestos, 7 = Abolishment FSA/new role of BoE, 8 = Reform proposals Banking Commission, 9 = Bailout banking sector/Governments	1 = Breaking up big banks, 'Too big to fail'-problem: 'It is inherently risky to have banks that are 'too big to fail'; especially when they know the state will bail them out when the going gets tough.' (0104001); 'A radical restructuring is urgently necessary, argues Better Banking.' (0105003); 'But once the structure of financial regulation is decided, the issue should be addressed. Segregation of accounts is basic stuff.' (0106003); 'One competition lawyer said that both Labour and Conservative plans for the banking sector had left many questions unanswered, with both parties giving the sense that they were nervous about allowing the Competition Commission scope to use its far reaching powers to break companies up or make them change the way they do business.' (0305002) 2 = New rules about bankers' payments: 'Skeoch

	<p>shares, 10 = Capital requirements</p>	<p>made his remarks about bankers' pay in a letter to City minister Lord Myners [City minister, Financial Services Secretary]...' (0104002)</p> <p>3 = MPs argue for a higher percentage of women working in the banking industry: 'The banking industry urgently needs to hire more women in senior jobs if it is to banish the dangerous culture of 'group-think' that contributed to the financial crisis.' (0104004)</p> <p>4 = Journalists/readers criticise government for lax regulations, free-rides for bankers, outsmarting the City: 'Lacking tough government control, they manipulated markets...' (0104003); 'A prudent Chancellor should have seen this train crash coming, and taken steps to pick the bubble.' (0104005), Brown admits that City regulations should have been firmer, but he succumbed to City lobbying (0104011)</p> <p>5 = The British government wants to adopt a bank levy based on the systemic risk a bank poses to the economy in order to raise cash for national coffers; IMF suggests to cut the world's biggest banks down to size by taxing their profits and pay (0104018)</p> <p>6 = Key policy points of the main political parties (Labour, Tories, LibDems) regarding banking regulation</p> <p>7 = The Conservative party announced a shakeup of City regulation that would abolish the FSA and grant new watchdog powers to the Bank of England.</p> <p>8 = A cross-party banking commission draws up proposals for City reforms that will be reported to the next government (code of conduct, ethical behaviour, etc.)</p> <p>9 = After the government has bailed out several banks during the crisis (RBS, Lloyds Banking Group), there has been a surprisingly early surge in their share prices. Parties discuss when and to what price the shares should be sold back. (0104025)</p> <p>10 = Banks protest vehemently against new global rules forcing them to hold billions more pounds of capital, claiming that these measures could push the UK back into recession (0105001)</p>
Occasion	<p>What is the occasion of the news coverage? Why has the article been published exactly at that time?</p> <p>1 = Status quo financial</p>	<p>1 = Complaints about stagnation in handling the financial crisis: '...unless policymakers realise that the most pressing issue facing them is not public borrowing, VAT or national insurances, but what they plan to do about the banks. Which, despite of what the politicians say, is not much.' (0104001)</p>

	<p>reforms, 2 = Reports/Committee conclusions/polls, 3= G20/EU meetings, 4= Party manifesto, 5= Television debate/Pre-election interviews, pre-election news coverage 6 = Fraud prosecution of Goldman Sachs, 7 = Bailed-out banks/rise in government shares, 9= Post-election news coverage/formation of government, 10= Coalition's political programme/Queen's speech, 11 = George Osborne's Mansion House speech/ new institutional setup of financial regulation, 12= FSA investigations/staff turnover, 14 = Emergency budget</p>	<p>2 = Banks submit annual performance reports: 'Details of his bonus payments were contained in Standard Life's annual report published yesterday.' (0104002), Report of the Treasury select committee (0104004), IMF report on bank levy (0104018), proposals made by the cross-party banking commission (0105004), statements submitted by the lobby of international banking groups on breaking up the big banks (0105022), review by the Office of Fair Trading (OFT) about factors that might stop banks being set up (0105030)</p> <p>3 = Representatives of the British government express their opinion on banking regulation at G20 meetings/ to G20 nations; Banks submit their opinion to the G20 nations on global regulatory reforms (0105001), UK officials meet colleagues at EU level</p> <p>4 = Parties publish their manifestos prior to the election, outlining the key policy points</p> <p>5 = Candidates debate on TV/give interviews about their position/standpoint; Third parties assess the possible policy measures of the government: '...the chief of the official watchdog has said in comments signalling a potential post-election battle over the industry's future.' (0305002)</p> <p>6 = The US governments fraud prosecution of Goldman Sachs triggered responses in the United Kingdom, too (inter alia Gordon Browns call for a new global constitution for the banking system, Banking Commission's call for a code of conduct)</p> <p>7 = Share prices in the two banks bailed out with taxpayers' money are rising unexpectedly (0104026)</p> <p>9 = Portrait Gordon Brown, inaugural speeches David Cameron/Nick Clegg, party policies, the new cabinet, coalition talks</p> <p>10 = Queen's speech outlining the political programme of the coalition</p> <p>11 = Speech is one of the big set piece events on the financial calendar which Osborne will use to 'put flesh on the bones of the coalition agreement on financial regulation', inter alia the abolishment of the FSA (0106001)</p> <p>12 = FSA investigates various companies, e.g. hit JP Morgan Chase with a 33m pound fine for its failure</p>
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		<p>to keep segregated accounts (0106003). Articles are only included in the analysis when they contain information on the (future) abolishment of the FSA (0106004) or the segregation of accounts (breaking up banks, 0106003); Sally Dewar, FSA's managing director of risk and board member quits her job and is no longer a candidate for being chief executive (0106007)</p> <p>14 = The emergency budget set up by George Osborne includes a banking levy, action on unacceptable bonuses and lending to small major firms, plus a loan guarantee scheme (0106013)</p>
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## Detail Coding - single evaluative statements

**Q2:** Which actors determine the public agenda (journalists/economic commentators, political parties, experts/epistemic communities...) before and after the election? Are the newspapers providing a forum especially for conservative, liberal, etc. actors?

**Q3:** Which positions/contents are ascribed to the respective parties in the news coverage? What are their main arguments pro and contra banking regulation and have they changed after the election?

**Q4:** Do the newspapers simply express the arguments of different actors or are they articulating additional ideas and arguments?

Name	Description/Instruction	Example
Actor	Who makes the statement? 1 = journalist (no quotation of third persons, no indirect speech), 2 = Labour, 3 = Tories, 4 = LibDems, 5 = experts/epistemic communities, 6 = (cross-party) committees, 7 = Reader (letter to the editor), 8 = Banks, 9 = Bank of England/Regulators, 10 = Others	6 = (cross-party) committees: Treasury select committee launching an investigation into City diversity [female representation in the financial sector] in summer 2009 (0104004); Future of Banking Commission set up in the wake of the financial crisis to gather recommendations for restructuring the banking sector (0406004). 10 = Others: Richard Lambert, director of Confederation of British Industry, Nick Anstee, Lord Mayor of the City of London, Timothy Geithner, former US Secretary of the Treasury
Aspect	What aspect is evaluated? 1 = Restructuring/Reforming the banking sector, 2 = 'Too big to fail'-problem/Breaking up big	1 = ...but what they plan to do about the banks. Which, despite what the politicians say, is not much (0104001); 2 = It is inherently risky to have banks that are 'too big to fail', especially when they know the state will bail them out when the going gets tough

<p>banks, 3 = long-term effects for the economy, 4 = Banker's bonuses/incentive mechanisms, 6 = Pre-crisis regulation, 7 = female representation, 8 = (global) bank tax/regulation, 9 = Party manifestos, 10 = Abolishment FSA/new powers for BoE, 11 = Fraud investigation against Goldman Sachs, 12 = Proposals Banking Commission, 13 = Treasury bailout/rise in government shares, 14 = Capital requirements, 15 = (Global) competitiveness of banking industry, 16 = Pay freeze, 17 = Consumer protection/service, 18 = Credit to (small) businesses</p>	<p>(0104001); The chances might still be low, but the prospect of (very welcome) action to break up the big banks must be greater under the Tories (0104013)</p> <p>3 = The costs of the bank bailout have long-term effects of the economy as a whole: Some losses to the economy will never be recouped, and this substantially increases the long-term costs (0104001)</p> <p>4 = City fund manager who hit out at bankers' pay gets £1.6m bonus</p> <p>6 = Journalists/readers criticise government for lax regulations, free-rides for bankers, outsmarting the City: 'Lacking tough government control, they manipulated markets...' (0104003); pre-crisis conduct of banks, selling customers products they don't want and need (0204008)</p> <p>7 = Politicians demand more female representation in the financial industry ('MPs attack the 'old-boy network' keeping women out of the City', 0104004)</p> <p>8 = The remarks may be seen as a pre-election swipe at the Tories who have pledged to press on alone with a bank tax, even if international agreement cannot be reached (0104007);</p> <p>9 = Labour, Tories and LibDems present their party manifestos prior to the election</p> <p>10 = Tories plan to abolish the FSA ('failed regulatory regime', 0104012) and hand all regulatory powers to the Bank of England</p> <p>11 = Britain and Germany joined the US in pursuing a fraud investigation against Goldman Sachs for allegedly fiddling against clients out of \$1bn through a misleading mortgage investment deal.</p> <p>12 = A cross-party commission conceived by the consumer group 'Which?' is drafting recommendations on banking reform and will report them to the next government after the election ('Hippocratic oath' for bank workers, 0104017).</p> <p>13 = Contacted on the campaign trail in Halifax, Darling said he had been the subject of 'vitriolic' criticism of his bank rescue plan by George Osborne but had always been confident the Treasury bailout in October 2008 had been the only way to prevent the banking system collapse (0104025)</p> <p>14 = Banks protest vehemently against new global rules forcing them to hold billions more pounds of capital, claiming that these measures could push</p>
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		<p>the UK back into recession (0105001)</p> <p>15 = It is critical to understand the barriers to entry and exit, and the impact that this has on the structure of the UK retail banking. (0105030); 'a competition probe into the banking industry is justified in the wake of the financial crisis to see if state bail-outs have distorted the market' (0305002)</p> <p>16 = BoE Governor Mervyn King + David Cameron and his cabinet take a pay freeze in order to set a good example for the rest of the society who will face severe spending cuts in the near future.</p> <p>17 = 'A more fundamental tension exists between what UK plc has striven for, i.e. the global competitiveness of its financial services industry and the need to protect consumer interests.' (0206013)</p> <p>18 = Vince Cable pledged to redouble pressure on banks to lend to businesses in a drive to create a better-balanced economy where wealth is spread around the regions (0306002)</p>
Tonality	How is the aspect evaluated? -2 = very negative, -1 = negative, 1 = positive, 2 = very positive, 3 = ambivalent	<p><b>ambivalent</b> = 'The idea of bringing together responsibility for monetary policy and regulatory authority is meant to address the need for keeping a closer watch on signs of 'excesses' which are thought to have been the root cause of the most recent financial crisis. However, no amount of monitoring of economic and financial indicators would have enabled any regulator, be it the FSA or the Bank of England, to keep in check the human behaviour that led to excessive risk taking by financial institutions.' (0206013); 'This consolidation is not quite what Mr Osborne promised in opposition but it will, at least, clarify that, in matters of financial regulation, supremacy belongs to the BoE. The task of recruiting better regulators does, however, remain a serious problem.' (0406006)</p> <p><b>Negative</b>: 'Peter Sands, chief executive of Standard Chartered, warned yesterday that a 'levy on liabilities dressed up as an ex-ante resolution funding is positively dangerous. It institutionalises moral hazard, will encourage banks to hold riskier asset portfolios and creates all sorts of international complications.' (0105027); 'From Cameron, nothing: The 'change' man offering no change at all.' (0104003)</p> <p><b>Very negative</b> = 'An unsavoury mix of populism and</p>

		<p>seemingly easy fixes. There is nothing liberal or sensible about a draconian clampdown on bonuses.' (0304014); 'Lord Mandelson has singled out the president of Barclays as the "unacceptable face" of the banking sector in one of the most vitriolic attacks on financiers since the financial crisis.' (0404001)</p> <p><b>Positive:</b> 'And this week he confirmed that the Mansion House statement was a positive move and gave his backing to the two-year time-scale for bedding in the new institutions.' (0406018); 'The Liberal Democrats have clear plans to break up the banks so that the recklessness of some bankers can never again hold the taxpayer to ransom.' (0204004)</p> <p><b>Very positive:</b> 'The Future of Banking Commission must be applauded for its probe into how disgraced High Street banks can once again put consumers at the heart of their operations. It is a much needed, and timely, piece of work [...]' (0206002); 'There was conversely almost universal praise from respondents for Mr Darling, thanks to what they see as his adroit handling of the financial crisis.' (0304030).</p>
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## Associated Topics

Topic	Description	Number
Overall economic model	<p>Commentators/readers/experts (OECD) demand a radical rethinking of economic guidelines/radical reform of the financial sector as a whole. Example: 'They want to see new thinking of the sort provided by Keynes the last time there was such a systemic shock to the global economy.'; 'It is time to plan for the time after Keynes: Now, against a backdrop of a widening sovereign debt crisis, we need to abandon short-term thinking in favour of long-term investments needed for sustained recovery.'</p> <p>Parties outline the general policy orientation of their manifestos: 'I call this agenda liberal. Others may have other names for it, but whatever terms you prefer; this is our best guarantee for a fair society.' (David Cameron)</p>	4
FSA investigations	<p>Despite the danger of being broken up by the Conservative party (central statement in the party's manifesto), the City watchdog has significantly increased its supervision of financial firms and products since the outbreak of the financial crisis:</p> <p>'The Financial Services Authority has fined and banned two former Northern Rock executives for misreporting the bank's mortgage arrears figures, in the first significant UK case to stem from the financial crisis.'</p> <p>'The fining and banning of two former Northern Rock senior managers is just part of a larger effort by the FSA to hold senior management accountable for problems that occurred in the final years of the financial boom and as the system began to crash.'</p> <p>'Concern is growing among UK financial services groups over the increasingly aggressive approach taken by the FSA, particularly as it steps up supervision of corporate governance issues.'</p> <p>'The FSA remuneration code will require banks to explain more carefully and be more transparent regarding their pay and reward structures.'</p> <p>'The shake-up of financial regulation could undermine the UK's tougher approach to insider dealing and customer mistreatment unless supervisors and enforcers remain 'closely linked and can work seamlessly together', the head of the financial services watchdog has warned.'</p> <p>'This is the stage of the economic and credit cycles when the knaves can no longer cover their tracks and are found out. Many FSA cases have been simmering away for years and it is the imminence of the election (the Tories want to dismantle the FSA) that doubtless has triggered the surge in scalp-seeking (comment by Patrick Hosking)'</p>	50

Credit for small businesses	<p>Despite significant political pressure to free up the credit markets, banks failed to increase lending to small businesses in the first three month of 2010 (BoE's credit conditions survey). Background: fear of a renewed credit crunch, as happened in 2007 after the near collapse of Northern Rock.</p> <p>'Banks are pushing up the cost of credit for cash-starved small businesses despite widespread criticism of their failure to help these firms, a report by the BoE showed yesterday.'</p>	4
Global bank regulation (G20/IMF/Basel Committee)	<p>Global institutions like the IMF, G20, and the Basel Committee on Banking Supervision repeatedly make recommendations on the future shape of global banking regulation (when the article contains explicit statements by UK officials, it is included in the analysis).</p> <p>'The IMF yesterday urged US and European regulators to consider imposing higher bespoke capital requirements on systemically important banks deemed too big to fail. Under the proposals discussed by the IMF, regulators would rank banks according to the probability they might fall in a crisis and the risk they pose to the rest of the domestic and global financial system.'</p> <p>'We call on the IMF for further work on options to ensure domestic financial institutions bear the burden of any extraordinary government interventions where they occur, address their excessive risk-taking and help promote a level playing field, taking into consideration individual country's circumstances.' [G20 communiqué]</p> <p>'In two reports on systemic risks and bank failures, the Institute of International Finance urged the leaders of the Group of 20 nations to create a working group to put together procedures and rules for cross-border bank failure.'</p>	25
Bailout Northern Rock	<p>Since the bailout of Northern Rock by the Labour government in 2007 is not directly related to the issue of long-term post-crisis banking regulation, articles about this issue are not included in the analysis. 'Former head of Northern Rock Matt Ridley published a book claiming it to be a scientific justification for unregulated business. Journalist takes opposite side by arguing that 'if the state he despises had not bailed out his bank and rescued its depositors' money, his head would probably be on a pike by now.'</p>	2

European regulation [of the City of London]	<p>Although the UK is no member of the Eurozone, the EU wants to include the country in its regulatory/legislative regime since the City of London belongs to the most important financial centres worldwide</p> <p>'European Union countries led by France and Germany plan to push through controversial new hedge fund regulations next week after turning down British plans to defer a vote in Brussels. The measures are opposed in the City as being excessively onerous. London is Europe's main private equity centre and home to 80 per cent of its hedge fund industry.'</p> <p>'European Union countries will be required to impose an upfront levy on banks, with the proceeds to be paid into national funds to insure against future financial bailouts, under proposals to be revealed tomorrow.'</p> <p>The UK tells other Eurozone governments to conduct more stress tests in order to protect their banking systems against external shocks: ' Last night Mark Hoban, the UK Treasury minister responsible for financial regulation, told a think-tank meeting in Brussels that the Eurozone governments needed to conduct more rigorous and transparent 'stress tests' on their banks to ensure they would be able to survive big shocks to the economy or financial markets.'</p>	16
Regulation of other financial entities/ practices (accountants, clearing houses, naked short-selling)	<p>Due to the fact that the analysis is strictly limited to the issue 'post-crisis banking regulation', the regulation of other entities like accountants or clearing houses has not been included in the sample. 'While the role of banks, hedge funds and credit rating agencies had been called into question following the financial crisis, Mr Barnier (EU internal market commissioner) was now convinced that it was the turn of the auditors to be put under the European regulatory microscope.'</p> <p>'Germany announced its crackdown on naked short-selling and triggered a backlash in foreign capitals. Regulators have been looking into the area for months, amid fears that it is far too easy for hedge funds and traders to speculate on government defaults.'</p> <p>'Clearing houses cannot be supervised by European Union authorities because the EU does not have the financial resources to bail out a large clearing house that runs into difficulties, a report by the upper house of the British parliament said yesterday. The report, by the House of Lords, comes as debate is escalating over how clearing houses should be regulated and supervised in the wake of the financial crisis.'</p>	13
Moral hazard	<p>Politicians are setting out proposals aimed at counteracting the effects of moral hazard on financial systems. Proposals include bank taxes, the creation of systemic risk funds, and capital surcharges for systemically important banks. To date, none of these proposals have been universally accepted. Proposal: embedded contingent capital (when articles include explicit</p>	2

	statements by UK officials, they are included in the analysis)	
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