# The New Political Economy of the Macroprudential Ideational Shift

Baker, A. (2013). The New Political Economy of the Macroprudential Ideational Shift. *New Political Economy*, *18*(1), 112-139. https://doi.org/10.1080/13563467.2012.662952

**Published in:**
New Political Economy

**Document Version:**
Peer reviewed version

**Queen's University Belfast - Research Portal:**
Link to publication record in Queen's University Belfast Research Portal

**Publisher rights**
"This is an Accepted Manuscript of an article published in New Political Economy on 23rd April 2013, available online: http://www.tandfonline.com/doi/abs/10.1080/13563467.2012.662952#.VDUFm_ldWWV."

**General rights**
Copyright for the publications made accessible via the Queen's University Belfast Research Portal is retained by the author(s) and / or other copyright owners and it is a condition of accessing these publications that users recognise and abide by the legal requirements associated with these rights.

**Take down policy**
The Research Portal is Queen's institutional repository that provides access to Queen's research output. Every effort has been made to ensure that content in the Research Portal does not infringe any person's rights, or applicable UK laws. If you discover content in the Research Portal that you believe breaches copyright or violates any law, please contact openaccess@qub.ac.uk.

Download date:24. Aug. 2022

# The New Political Economy of the Macroprudential Ideational Shift[1]

The historic ‘great transformations’ in economy, society and polity that have followed major financial crises (Blyth, 2002, Gamble, 2009), have generally been protracted multiphase processes that have taken well over a decade to unfold (Helleiner, 2010, Blyth, 2002)[2]. Based on this historical track record, it is undoubtedly premature to attempt to reach a verdict on the overall impact and significance of the financial crash of 2007-09, in terms of a new or future political economy. However, it is not too early to seek to identify interesting or new emerging patterns, and to consider their potential significance and importance.

What we discover of course depends on where we look. If we look in the obvious places, -public and party political discourses in western Europe and North America on the macroeconomy (including the pronouncements of the IMF, OECD and European Central Bank,) it is a familiar tale. We discover a crisis couched in terms of excessive public debt, a problem of ‘crowding out,’ a recurrence of stagflation, with the intellectual ascendancy of rational expectations and Ricardian equivalence seemingly firmly entrenched (Blyth and Shenai 2010, ECB, 2010). If we look in some less obvious places, a rather more interesting picture begins to emerge.

One of the more intriguing patterns to emerge following the peak of the financial distress of 2008 is the sudden rise to prominence of macroprudential ideas in regulatory policy communities. Many scholars of financial governance think of technocratic networks of financial regulators as representing orthodox, conservative, incremental forms of governance displaying symptoms of path dependence, ideational inertia and cognitive locking (Porter, 2003, Baker, 2009, Tsingou, 2009, Moschella, 2011, Mugge, 2011, Germain, 2010, Underhill, 1995). Yet from late 2008 onwards, in the space of just over six months, those

financial regulatory networks centred around the Swiss city of Basel, presided over a startlingly rapid ideational shift, the significance and importance of which remains to be deciphered. From being relatively unpopular and very much on the sidelines, the idea of macroprudential regulation (MPR) moved to the centre of the policy agenda and became the principal interpretative frame, for financial technocrats and regulators seeking to navigate the crisis and respond to it, not only in terms of diagnosing and understanding it, but also in advancing institutional blue prints for regulatory reform (Blyth, 2002). This article sets out to explain how and why that ideational shift occurred before making some arguments about its potential significance in terms of ushering in a new political economy of macroprudential regulation (MPR).

While on the face of things, macroprudential ideas appear to be quite narrow, arid and technocratic, they also have a normative element, with potentially profound long term consequences. In particular, macroprudential ideas challenge and reject efficient market theories, and advance a quite different conception of market relations and behaviour. Such a conception of markets implies a redefinition of the role of public authorities and an increase in their power to intervene and set limits to financial market activities. It is also a position that in some guises implies a reduction in levels of permitted financial activity on the grounds that such activities can be socially damaging. In this respect, the rise to prominence of MPR will provide a perfect live laboratory for constructivist political economy scholars interested in examining the politically transformative affects of economic ideas and their capacity to reconfigure social and political relations in financialized economies over the next decade, or more.

The rest of the article proceeds in three principal steps. First, a short intellectual history and genealogy of MPR is provided. Second, an explanation and account of why there was

little enthusiasm for MPR prior to the crisis and how and why this changed during the crisis, is developed. This explanation draws on agent centred constructivist scholarship and rests on the argument that crises, as moments of uncertainty, have to be endogenously constructed through the use of economic arguments and interpretative frames (Widmaier, Blyth and Seabrooke, 2007). In the field of financial regulation, MPR, became the dominant frame of interpretation, due to the apparent breakdown of some of the key premises of the previous efficient markets orthodoxy, but also due to the activities of a small number of norm entrepreneurs (Finnemore and Sikkink, 1998,) who formed a coalition across linked 'professional ecologies' (Seabrooke and Tsingou, 2009). While constructivist scholarship has drawn attention to the act of persuasion, it has to date, paid insufficient attention to the scope or enabling conditions that determine how and why ideas are selected in periods of crisis (Chwieroth, 2010). Chwieroth's recent study of Indonesia identified four such conditions (the four Cs), but the dynamics of crisis politics at work in the case of a developing country, are likely to differ from those evident in international and transnational regulatory networks and their relationship to leading core developed states, as considered here. This article specifies four scope conditions (the four Ps) that shaped the emergence of MPR as the principal post crisis regulatory interpretative frame. These include: P1 = presence - the prior intellectual and institutional presence of ideas; P2 = professional positioning – advocates of ideas becoming better positioned in professional policy networks; P3 = promotion and persuasion - individual insiders (norm entrepreneurs) willingly engaging in networking and persuasion strategies, actively promoting ideas when the opportunity arose; and P4= plausibility – a seeming increase in the explanatory capacity of those ideas based on their diagnosis of the situation and their advocacy of a feasible programme of action that could be accepted by a range of relevant actors, together with the rising professional esteem, status and standing of the advocates of those ideas, based on their prior analytical performance, which increased the

plausibility, both of them as individuals and the ideas they were advocating. Third, the implications and significance of this spate of norm entrepreneurial activity are briefly assessed in the final section of the article, by considering the macroprudential ideational shift in the terms of Peter Hall's concept of a paradigm shift (Hall, 1993). It is argued that the sequencing identified by Hall in the case of British macroeconomic policy in the 1970s, is reversed in the case of the macroprudential ideational shift, with highly contingent and uncertain consequences.

## Macroprudential Regulation: A short intellectual history

Macroprudential is a relatively recent term, with a longer intellectual history. The term was first used at a meeting of the Cooke Committee, (a forerunner of the Basel Committee on Banking Supervision BCBS), on 28-29 June 1979, to refer to how problems associated with a particular institution could have destabilising systemic financial implications (Clement, 2010). It was however, a further seven years before the term macroprudential first made it into a public document. In 1986, a Bank for International Settlements (BIS) report defined macroprudential policy as, policy that promotes the safety and soundness of the broad financial system and payments mechanism (BIS, 1986, p.2). Despite some informal usage of the term 'macroprudential' at the BIS after 1986, it was following the Asian financial crisis during the early 2000s, that more substance was added to macroprudential concepts through a spate of intellectual and research activity[3]. The BIS Research Department was a key location for this work, although a number of academic and private sector economists such as Martin Hellwig, Avinash Persaud, Charles Goodhart and development economists such as Jose Ocampo and Stephanie Griffith-Jones, also made important contributions to key macroprudential concepts including fallacy of composition, herding and procyclicality.

In 2000, Andrew Crockett, General Manager of the BIS, contrasted macroprudential with microprudential approaches. The focus in macroprudential approaches, according to Crockett, was on the financial system as a whole, so as to limit the costs of financial distress in terms of macroeconomic output. This was accompanied by an acknowledgement that aggregate risk was endogenous, or dependent on the *collective* rather than *individual* behaviour of financial institutions. Consequently, while an institution's actions could appear individually rational, in the aggregate that behaviour could generate undesirable outcomes for the system as a whole (Crockett, 2000). A key macroprudential concept therefore is the Keynesian notion of a fallacy of composition, or the idea that it is aggregate or collective systemic outcomes that matter rather than just individual incentives and courses of action. From a macroprudential perspective therefore striving to make individual institutions safe (a microprudential approach[4]) does not necessarily make the system as a whole safe, because diversification at an institutional level does not necessarily produce system wide diversity (Haldane, 2010). Such arguments essentially critiqued the exclusively microprudential approach, which involved home country regulators supervising individual institutions but not jurisdictions or systems in their entirety (Persaud, 2010). Consequently, the macroprudential perspective argues that regulators needed to take a system wide view and implement top down requirements – a macro approach. Three further macroprudential concepts, - procyclicality, herding and externalities, - follow on from this notion of a fallacy of composition.

First, Claudio Borio, William White and other BIS officials, examined how risk evolved over time with reference to the credit cycle, identifying the inherent 'procyclicality' of the financial system, or a tendency for lending and transacting to inflate asset prices and create financial booms (Borio, Furfine and Lowe, 2001, Borio and White, 2004, White, 2006, BIS 2006). Procyclicality refers to how during the up phase of a cycle, as asset prices rise, measured risk appears to fall. It is a concept therefore, that draws directly on Minsky's

observation that the system appears safest precisely when it is at its most vulnerable. In such circumstances, competitive pressures to increase profits, cause banks to increase their leverage, and invest in rising asset classes, or suffer falling stock prices[5]. Views about acceptable debt structure change. Debt financing further inflates asset prices, creating easy credit and a speculative and unsustainable investment led boom (Minsky, 1977, pp.65-66). In contrast when asset prices start to fall, risk appears to rise, selling of assets commences, views on acceptable levels of debt are revised downwards and uncertainty grips markets, causing available credit to contract. The procyclical paradox of credit therefore is that it is most available when it is least needed and least available when it is most needed. To counteract the inherent procyclical tendencies of financial markets, the BIS argued that regulatory policy had to be countercyclical, - a policy framework that induced institutions to build up capital cushions or buffers in good times, so that they could be drawn down in bad times, thereby stabilizing and modifying the worst excesses of procyclicality by imposing constraints on private market actors during the upswing phase of a cycle, through the application of a dragging anchor (Borio and Drehman, 2008)[6].

Second, academic work illuminated how diversification by individual institutions could result in their balance sheets and portfolios becoming increasingly similar, thereby increasing non-diversifiable systemic risk (Hellwig, 1995). Such a point was elaborated by Avinash Persuad, when he observed that large banks' risk assessment models bore close resemblance to one another. These 'value at risk' models (VaR), operated through daily price sensitive risk limits that required banks to reduce exposure when the probability of losses increased as a result of falling asset prices. This in turn meant that many banks tended to hit their VaR determined risk limits simultaneously and therefore had to sell the same assets at the same time resulting in financial herding and plummeting asset prices further accentuating procyclicality (Persaud, 2000). Consequently, banks reliance on VaR models and market

prices for the management of risk, as encouraged by the Basel II agreement, actually encouraged market participants to herd into areas that appeared safe, as measured risk appeared to fall in the build up to the boom, but then rose with a vengeance during the bust (Persaud, 2009).

Third, is what BIS economists refer to as the cross sectional dimension, or the linkages between markets and market participants that generate externalities and unanticipated consequences (Borio, 2009). The basic proposition raised by the pioneering work of Andrew Haldane at the Bank of England, is that financial engineering, shadow banking and securitization, rather than making the financial system safer, have often increased instability due to the complex externalities that have proliferated. This means that relatively small unexpected events can generate increasingly costly explosions that no model of political economy can sustain indefinitely (Haldane, 2010, Alessandri and Haldane, 2009, Taleb and Blyth, 2011). At the same time, excessive complexity has exceeded the capacity of human cognition, making risk incalculable (Best, 2010, Haldane, 2010, Turner, 2011, Blyth, 2011). In developing these ideas Haldane has worked with epidemiologists, physicists and a professor of zoology to develop network modelling and systems analysis. An important argument arising from this research is that as financial systems are less modularised, less self contained and more integrated they display many of the symptoms of complex ecosystems. While a simple ecosystem can accommodate bigger shocks, because the various parts of it are relatively self contained and do not generate unexpected chain reactions, relatively small changes in a complex ecosystem generate dislocation, precisely because of the chain reactions that do unfold (Haldane and May, 2011). According to this type of analysis, such developments have made the financial system more prone to systemic collapse, with catastrophic consequences in terms of lost macroeconomic output. Analysis of this kind provides a powerful rationale to move the perimeter of regulation to cover shadow banking,

but also to modularise or separate financial activities, through Glass-Stegall type legislation, to tax and even prohibit certain financial activities and transactions, because their social costs may exceed any economic value they generate (Haldane, 2010, Turner, 2011, Tucker, 2010.)

In short, macroprudential thinking challenges the analytical foundations of the previous efficient markets orthodoxy that dominated the pre crisis period. The 'trilogy' that was at the heart of the 'old Basel consensus' (Eatwell, 2009), that greater transparency, more disclosure and more effective risk management by financial firms based on market prices are all that is required for the regulation of efficient markets, and that securitization and financial innovation necessarily make the financial system safer, are all questioned by core macroprudential concepts (see table 1). Indeed, it was the very risk management strategies, derived from this trilogy and endorsed by Basel II, that MPR advocates claimed, 'hardwired' procyclicality into the financial system (FSA, 2009, Claessens, Underhill and Zhang, 2008). Macroprudential regulation can therefore be conceived of as a series of premises that refute the old Basel `consensus, and seek to forge a new Basel consensus that emphasises procyclicality, externalities, herding and the dangers of overly complex financial systems (see table 1, Helleiner, 2010).

TABLE 1 HERE

To summarise, MPR's ultimate contribution is to spotlight the volatile and inherently unstable nature of contemporary financial systems. In this regard MPR has a mixed intellectual heritage. One former BIS MPR pioneer has made an appeal to Austrian school influences, assigning critical importance to the excessive creation of money and credit[7]. However, the same individual also acknowledges the diverse and eclectic intellectual genealogy of MPR ideas by pinpointing the Keynes' inspired work of Hyman Minsky. Indeed, the principal intellectual challenge, according to William White, is to blend Minsky's

Keynesian framework with insights from the Austrian School (White, 2009, p.17). In this respect, the crucial underpinning for MPR ideas draws heavily on Hyman Minsky's financial instability hypothesis, including the observation that risks are born in periods of stability (Minsky, 1977), and the observation that financial markets are prone to myopia, irrational exuberance, herd behaviour and subjectivities that are prone to change (Turner 2011, Tucker 2011). Crucially, macroprudential concepts refute not only the efficient markets position, but also the rational expectations foundations of both new classical and new Keynesian perspectives (White, 2009). The significance of this change in underlying assumptions can be understood through a key passage from Minsky.

> We have to examine economic processes that go forward in time, which means that investment, the ownership of capital assets, and the accompanying financial activity become the central concerns of the theorizing. Once this is done then instability can be shown to be a normal result of the economic process. Once instability is understood as a theoretical possibility, then we are in a position to design appropriate interventions to constrain it (Minsky, 1982, p.xii.)

Because macroprudential ideas do exactly this, and consider financial instability to be not only possible, but also endemic and endogenous to the system, they also create the case for a far more extensive series of public interventions in financial markets. MPR's putative analytical shift prepares the ground for a reassertion of public authority over private interest, and involves a normative stance that regulation should be driven by a desire to ensure that the costs to society as a whole are less than the private costs incurred by private sector institutions (Persaud, 2009, Alessandri and Haldane, 2009, Turner, 2011). In this respect, in contrast to the efficient markets derived modern risk management paradigm of microprudential supervision, that has prevailed over the last two or three decades, and which has essentially involved regulators asking banks what they do (Tsingou, 2008), MPR implies a return to regulators telling banks what they should do[8]. This is important because it potentially involves an important reconstitution of power relations at the heart of

financialized capitalism, together with lower levels of financialization, with all of its attendant implications for social settlements in Anglo-American societies (Turner, 2011, Hay, 2011). That is deserving of further attention and exploration by scholars in the field of political economy over the next decade, particularly those interested in the power and transformative effects of economic ideas.

## The Political Economy of an Ideational Shift

*"We are all Macroprudentialists now."* Claudio Borio, Director of Research, Bank for International Settlements, November 2009.

*This modern risk management paradigm held sway for decades. The whole intellectual edifice however collapsed in the summer of last year."* Former Federal Reserve Chairman, Alan Greenspan, evidence to the US House of Representatives, 23rd October 2008.

Claudio Borio's comments above neatly summarise how macroprudential ideas have moved from relative obscurity in certain enclaves of the BIS, to the centre of the policy agenda, dominating and driving the post crisis financial reform debate, in the international community of central bankers. While the macroprudential perspective slowly gained ground due to the analytical work conducted by the BIS during the first half of the last decade, as covered in the previous section, it was, according to Borio, 'the recent financial crisis that gave it an extraordinary boost' (Borio, 2009, p.32). As Borio has pointed out, 'a decade ago the term macroprudential was barely used and there was little appetite amongst policy makers and regulators to even engage with the concept, let alone strengthen macroprudential regulation' (Borio, 2009, p.32). For example, in several well documented exchanges at the Jackson Hole, Conference of the Kansas City Federal Reserve in 2003 and at later meetings of central

bankers at the BIS headquarters in Basel, Alan Greenspan was notoriously dismissive of the macroprudential analysis and arguments of both Borio and William White, who were warning of the dangers of an inflating financial boom. Other central bankers at these meetings largely agreed with Greenspan (Balzil and Schiessl, 2009). Despite receiving backing from sections of the BIS therefore, MPR remained relatively unpopular in the lead up to the crisis of 2007-09. From late 2008 through to mid 2009 however the popularity of MPR surged and its constituent ideas permeated key institutional settings in the global financial architecture, with both the BCBS and the new Financial Stability Board (FSB) being given macroprudential mandates by the G20 (FSB, 2009).

Scholarship has been quick to point out how financial crises and subsequent responses are multiphase processes (Helleiner, 2010, Chwieroth, 2010, Blyth, 2002). From late 2008 through to 2009, policy makers engaged in a period of diagnosis and reflection involving the establishment of reform agendas and priorities. When it comes to understanding the role ideas play in periods of financial crisis sequencing is all important (Blyth, 2002, p.44). As Blyth has pointed out, before agents can respond to a crisis they have to have some idea what caused it and ideas in this context can act to reduce the 'Knightian' uncertainty that accompanies unique events, by providing a diagnosis of those events. In many respects, this period represented a period of exceptional crisis politics, during which routine calculations of interest became upset by dramatic events, with macroprudential ideas providing an explanation of a confusing situation that also reconfigured perceptions of interest and allowed agents to redefine their understanding of their relationship to the crisis (Polsky, 2000, Blyth, 2002, p.38). During this period MPR became established as a normative and political priority, not only amongst the leaders and ministers of the G20, but also became diffused and established in the work programmes of the more technical committees of the BCBS, the FSB, the BIS, national central banks and even public-private policy communities consisting of

major industry representatives such as the G30. To understand how this process unfolded however, we need to identify the scoping or enabling conditions that determined the process of ideational selection. But first, it is necessary to ask why macroprudential ideas were relatively unpopular prior to the crisis?

*Why was macroprudential regulation relatively unpopular prior to the crisis?*

The obvious answer to this question is that MPR ran contrary to the identifiable material interests of major players, at least during a financial boom. For example, during the boom, the two leading financial centres and pioneers of financial innovation and shadow banking, London and New York, provided the US and UK, as current account debtor states, with the means of financing deficits through capital account surpluses (Blyth, 2003, Baker, 2006). Neither government had much in the way of an immediately identifiable material incentive to slow the inflow of capital into their financial systems, or to place restrictions on the activities of their own institutions. Significant financial rents accrued to the governments of the US and UK courtesy of their financial sectors (25% of tax revenues in the case of the UK). Financialization and securitization were also integral to the growth models and welfare settlements of the US and the UK (Langley, 2008, Seabrooke, 2006, Finlayson, 2009). Light touch regulation in the UK, and a different but similarly market oriented approach in the United States, were both a cause and a consequence of financialized political economies (Johnson and Kwak, 2010, Baker, 2010). Macroprudential arguments that an unsustainable boom was inflating were also unattractive to incumbent politicians who were concerned that booms would continue until well after elections had been successfully contested (Warwick Commission, 2009). Electorates enjoying the prosperity of a boom were similarly disinclined to hear arguments about instability and unsustainability. Reinforcing this pattern of state interests were private sector interests that strongly favoured the exclusively microprudential

emphasis on VaR models of the Basel II agreement (Underhill and Zhang, 2008). Empirical research for example, reveals that the Institute of International Finance, an umbrella organization, comprised of many of the world's largest banks, consistently shaped the Basel II policy script, making its VaR focus, a deliberate result of private sector design and preference expression (Tsingou, 2008). A coalition of leading states and powerful private interests were therefore largely aligned against macroprudential regulation during the boom.

A focus on calculations of material interest only provides a partial explanation for opposition to MPR, however. Another factor was a form of intellectual or cognitive capture (Johnson and Kwak, 2010, Baker, 2010, Buiter, 2009). The conventional pre crisis wisdom shared by regulators, central banks and the risk management departments of large banks rested on a simplified version of efficient market theories, that were antithetical to, and rejected the case, or need for, MPR. For example, the assumption that financial markets were rational and tended towards equilibrium were not just accepted at the UK's Financial Services Authority (FSA) prior to the crisis, but had, according to the current head of the institution, 'become part of the institutional DNA' (Turner, 2011). In this context, MPR appeared an unnecessarily cautious and costly set of proposals.

A further factor was the standing and position of dominant charismatic individuals in central bank networks. The obvious example is Greenspan's status as 'the maestro' (Woodward, 2000). Greenspan had presided over a record period of low inflationary growth, - 'the great moderation', and his standing amongst central bank peers effectively gave him a power of veto in international financial governance during the boom, which was not just a function of office, but also of his social status on the basis of his track record. His opposition to MPR and support for the modern risk management paradigm, has been well recorded, as observed at the beginning of this section, and in the face of opposition from Greenspan, MPR stood little chance of gaining ground in central bank networks.

Finally, MPR advocates located at the BIS, did indeed forward macroprudential informed analysis but their arguments made little headway, partly for the reasons and context outlined above, but also because they lacked strategic capacity. As William White, himself has conceded, "we were staff. All we could do was present our expertise. It was not within our power how it was used (Balzil and Schiessl, 2009)." In other words, the presence of argument and analysis alone was insufficient. It needed to be accompanied by strategy (promotion), by strategic professional position and by a sympathetic wider prevailing context (plausibility). These enabling conditions were absent prior to the crisis and BIS staff found themselves isolated in their promotion of MPR.

*Scoping Condition P1 = Prior Intellectual and Institutional Presence*

During 2008, as we moved towards the height of the crisis, the existing efficient markets orthodoxy - a 'do little' position remained ascendant in technocratic networks. Indeed, the initial early centre piece international policy document of the crisis, - a report by the Financial Stability Forum (FSF 2008), which set out an agenda for responding to early liquidity problems and stress in securities and derivatives markets, re-iterated 'the familiar trilogy' (Eatwell, 2009). The core message in this report was that greater transparency, more disclosure and more effective risk management by banks and investment funds were the best market enhancing light touch response (FSF, 2008). The inadequacy of this thinking became clear when, the sheer number of financial institutions requiring public financial support following the collapse of Lehmans in the Autumn of 2008, meant that financial distress took on a systemic quality. The extreme downward movement in a number of interrelated asset classes could not be explained by the efficient markets approach. From this perspective systematic mistakes by markets (as the sum of individual rational decisions), as opposed to isolated random ones, could not happen, at least when adequate information was available,

because optimising agents would drive prices into equilibrium. In contrast, the macroprudential approach that emphasised the importance of systemic thinking and highlighted the procyclical and unstable tendencies of financial markets, provided a ready made conceptual apparatus for explaining the events of Autumn 2008. This conceptual approach also critiqued the dominance of the existing orthodox and its overreliance on VaR models, asserting that such an approach was a cause of the crisis, that had further 'hard wired' procyclicality into the financial system (FSA, 2009). In this context, the existing orthodoxy became part of the problem that had to be replaced with new thinking.

Crucially, as the first section of this paper revealed, MPR had in the words of Claudio Borio, been 'evolving quietly in the background, known only amongst a small but growing inner circle of cognoscenti' (Borio, 2011, p.1). In other words macroprudential ideas had a prior intellectual and institutional presence, particularly at the BIS. This meant MPR advocates had the strategic advantage of access to the established financial technocratic research and report writing machinery that politicians called upon to provide them with diagnoses, answers and proposals. This was not true of the radical market fundamentalist perspective that attributed the crisis to excessive government intervention and argued for less intervention by central banks (Henderson, 2008), or equally radical calls for wholesale nationalizations of financial sectors and immediate prohibition of many market activities As Walter Mattli and Ngaire Woods have pointed out, "successful [regulatory] change is made more likely where new ideas provide a way to regulate that both offers a common ground to a coalition of entrepreneurs pressing for change and fits well with not-discredited existing institutions." (Mattli and Woods, 2009, pp.4-5). In this respect, MPR had not discredited institutional and individual backers that were already linked into key policy making networks in the form of Borio's inner circle of cognoscenti. As Tony Porter has pointed out if proposals in the field of financial governance are to appear viable to policy makers, they have

to be grounded in prior research, technical reports and have an institutional presence (Porter, 2003). Following the financial implosion of 2008, macroprudential advocates were not starting from scratch. Individuals such as Borio and White, were already recognised and positioned within key policy networks, with a prior track record of advancing macroprudential ideas for nearly decade. Scoping condition P1 therefore is prior institutional and intellectual presence, which gave the macroprudential perspective an advantage in terms of institutional access and a body of prior work that outlined the inadequacies of the prior efficient markets orthodoxy.

*P2=Professional Position*

Writing in 2009, Claudio Borio of the BIS noted that, "this swell of support [for macroprudential regulation] could not have been anticipated even as recently as a couple of years ago. The current financial crisis has been instrumental in underpinning it" (Borio, 2009, p.2). The groundswell of support for macroprudential regulation occurred from late 2008 onwards. Despite the prior institutional presence of MPR, BIS staff had limited capacity to push their ideas during the boom, precisely because too many other professional groups within the policy location of international monetary and financial monetary governance were not inclined to listen. In this respect, Len Seabrooke and Eleni Tsingou, drawing on the work of sociologist Andrew Abbott, have usefully identified three linked professional ecologies in the area of monetary and financial governance that help us to identify and explain the difficulties facing BIS staff (Seabrooke and Tsingou, 2009). These include financial and monetary systems (FMS) – those concerned with monetary and regulatory policy, (in this case primarily the staff of central banks and national regulators); professional economic sciences (PES) (economists developing economic theories, models and analysis and data

sets); and asset trading and evaluation (ATE) banks, investment firms and rating agencies engaged in risk management and credit provision. Seabrooke and Tsingou's contention is that policy proposals need a support base that spans all three professional ecologies if they are to be successful (Seabrooke and Tsingou, 2009). The evidence from the macroprudential case provides support for this contention.

Locating BIS research economists such as White and Borio in relation to these linked professional ecologies is difficult. They effectively operate as a free standing pool of expertise, research and analysis that can be availed of, or ignored, by the central banks, but they have no formal decision making role, or function within the regulatory and policy making community, other than the provision of advice, analysis and arguments. BIS staff, therefore, display many of the professional traits of professional economic sciences (PES). Other prominent MPR advocates such as Charles Goodhart, Jose Ocampo, Stephany Griffith Jones, John Eatwell and Martin Hellwig, were also largely drawn from professional economic sciences. National policy makers in contrast were less concerned with intellectual cases and hypothetical constructions, but were primarily events driven, focused on immediate and medium term policy success, - seemingly evident throughout the boom in the form of growth, low inflation (according to the measures,) and the appearance of relative financial stability in leading economies. They had little incentive or inclination to listen to alternative analyses questioning their policy model and track record, because there appeared to be no immediate empirical disconfirmation of their assumptions, or methods. During the boom MPR, advocates were consequently largely regarded as prophets of doom, at many G7 central banks, with William White, being openly and ironically derided at the Federal Reserve as 'Merry Sunshine' (Balzil and Schissel, 2009). Without a substantial foothold in this day to day national policy practitioner community, macroprudential ideas stood little chance of gaining ground. Tellingly, the verdict of current BIS Secretary General Peter Dittus on the

BIS staff record during the boom was that they had the right analysis, but did not know how to use it and present it (Balzil and Schiessl, 2009). In short, macroprudential advocates may have had good ideas and arguments, but they were not in a position to promote them in an effective fashion, nor could they make their ideas appeal to the priorities, concerns and functional skill sets of a sufficiently broad coalition of other professional actors. In terms of the intertwined and overlapping professional ecologies of the financial world, MPR advocates were marginalised prior to the crisis and largely confined to a relatively small group within professional economic science.

Crucially, post crisis MPR advocates were able to make connections across the different professions that characterise the domain of financial governance, mainly due to a combination of circumstance and opportunity. In particular, MPR advocates were able to present practical policy proposals that promised to limit future potential market losses, to reduce future calls on public finances and to minimise the loss to macroeconomic output that came with episodes of financial distress. This increased the appeal of these ideas to both public and private sector representatives. Macroprudential policy instruments such as counter cyclical capital buffers for example, could be presented as a long term insurance mechanism to both public and private actors. Spain was frequently held up by macroprudential advocates as an example of a country whose banks had emerged strongly from the events of 2008, despite a huge real estate crisis, largely because of the presence of counter cyclical capital buffers (Eatwell, 2009, Persaud, 2009, Borio and Drehman, 2008, FSA, 2009). Furthermore, the emergence of the G20 as the premier steering committee in the global economy (Cooper, 2010), and the move to expand membership of a number of technical committees such as the BCBS and the new FSB, meant that Asian countries such as India and South Korea, who had pioneered the use of a number of macroprudential policy instruments such as leverage limits and value to loan ratios, without naming them as such (Borio, 2011), offered up further

practical examples of how macroprudential policy had helped these states escape the worst effects of the financial distress of 2008. Macroprudential proposals thus moved out of a purely conceptual and intellectual realm, and quickly developed real practical applications and lessons that could be drawn upon by both professionals across public and private sectors. The consequence of this was that, a situation of relative professional isolation was transformed, due to the emergence of a broader coalition that spanned the linked ecologies of financial governance and was attracted to macroprudential thinking as both a diagnosis of events, but also as a series of prescriptions with practical applications[9]. Scoping condition P2 that provided the basis for the success of macropruential ideas was an improvement in professional positioning and appeal.

*P3=Promotion and persuasion*

While, the improved position of macroprudential ideas within professional networks was an eventual outcome of the crisis, it doesn't tell us about the process through which that outcome was achieved. In terms of crisis politics a third condition, - the willingness of macroprudential norm entrepreneurs to engage in the very action of promotion and persuasion as P3, is particularly crucial. During the crisis, policy makers and politicians began a frantic search for alternatives to the simplified efficient market orthodoxy, to explain the situation they found themselves in and to provide a template for affirmative action (Persaud, 2009). The literature on norm emergence holds that stage one in this process is the act of persuasion by norm entrepreneurs as experts who use language to name, interpret and give meaning to events and issues, resulting in a renaming or framing process that shapes how issues and events are understood and talked about (Finnemore and Sikkink, 1998). During 2008 and 2009, MPR became the central framing device for understanding and interpreting the financial crash and how to respond, but this only came about due to a

proactive promotional and persuasive strategy by a relatively small number of key macroprudential norm entrepreneurs. In other words, the rise to prominence of macroprudential ideas relied upon norm entrepreneurs who were willing to take action and engage in a public process of diagnosis, persuasion and prescription. Two elements of their strategy were particularly important. First macroprudential norm entrepreneurs became much better at engaging with and selling their ideas to national policy makers in the post crisis period. Second, macroprudential norm entrepreneurs were very adept at positioning themselves on many of the key post crisis committees that produced key set piece reports on the crisis, ensuring their ideas featured in the resulting proposals.

For example, in the UK, a triumvirate of advisors – economists John Eatwell, Charles Goodhart and Avinash Persaud from the investment community, converted Adair Turner, the new head regulator of the FSA, to the macroprudential cause in briefings during the summer of 2008. Turner became one of the most forceful and eloquent advocates of the macroprudential position and began to make the macroprudential case at the meetings of the FSF in Basel[10]. As the FSF prepared reports for G20 meetings, macroprudential references and thinking also began to find their way into G20 communiques, albeit somewhat cryptically under the heading 'mitigating procyclicality' with support expressed for countercyclical capital buffers, for the first time in the Horsham communiqué of 2009 (G20, 2009). Turner and his team also made the case to Treasury, Bank of England and Cabinet Office officials. Persaud briefed HM Treasury officials as he sat on several Treasury boards. On another occasion Eatwell forcibly made the case for MPR to Treasury, Bank of England and Cabinet Office officials at a briefing session/ discussion ahead of UK preparations for the London G20 Summit (Eatwell, 2009)[11].

Meanwhile, William White had now retired from the BIS, but was in demand as one of the few prescient voices prior to the crisis. He was consequently advising and briefing the

German G20 team and also briefing Canadian officials using the frame of MPR analysis, to a receptive audience given Canada already had limits on bank leverage (Balzil and Schissel, 2009). The increased access to the levers of national state policy making that macroprudential advocates enjoyed in Euro zone states, the UK and Canada, enabled the outlines of a macroprudential consensus to be built through the G20 and the FSB. By the summer of 2009 the new FSB was calling on the BCBS to commence work on countercyclical capital buffers, and a new Basel III agreement with a macroprudential component was eventually announced in the second half of 2010.

At the same London meeting, in which Eatwell made the MPR case in 2009, a senior British official argued that the reason Spanish Banks had remained strong, despite a massive real estate crisis, was nothing to do with dynamic provisioning, or the counter cyclical capital buffers they employed. It was because they got lucky[12]. In other words, resistance from sceptical voices advocating the prior other orthodoxy, meant that MPR advocates still had an argument to win during 2009. A key element of macroprudential norm entrepreneurs' promotional strategy was however crucial in overcoming such opposition. Macroprudentialists positioned themselves in a number of key committees that produced key set piece policy reports on the crisis, in such a way that now it was the efficient markets orthodoxy that found itself increasingly isolated, as the search for alternatives to the prior orthodoxy commenced. In the UK, the FSA's principal document, The Turner Review, diagnosed and set out an action plan for responding to the crisis, within a macroprudential frame (FSA, 2009). Persaud and Goodhart also teamed up with Andrew Crockett, former BIS director general and long time of advocate of MPR to publish the Geneva Report into the crisis in July 2009, which again made the case for MPR (Brunnermeir et al, 2009). Through his participation in the UN Stiglitz Commission, Persaud also ensured MPR featured in their recommendations (UN, 2009). The De Laroisiere report produced by the EU also identified

the need for a macroprudential approach (De Laroisiere 2009). G30 reports produced by a combination of public and private sector officials similarly endorsed and explored macroprudential regulation (G30, 2009, 2010). Naturally as a concept that originated with and had been pioneered by BIS staff, BIS staff continued to promote and applaud the new emerging Basel consensus in favour of MPR, publishing their own reports and papers, – further elaborating the case for MPR (Borio, 2009, Borio, Tasharev and Tsatsronis, 2009,) with the BIS even laying claim to be the principal institutional owner and intellectual driver of the concept (Clement 2010, Galati and Moessner, 2011). With so many expert reports advocating MPR and macroprudential philosophies, an irresistible momentum in favour of a macroprudential approach to regulation was built and diffused throughout the key policy locations in the international financial architecture, as a new consensus based on macroprudential analytical frame took hold shaping the policy priorities of major central banks including the Federal Reserve, the European Central Bank and the Bank of England (Bernanke, 2011, Constancio, 2011, Tucker 2011b).

Crucially this increased support for the new consensus came about only because macroprudential norm entrepreneurs were willing to be proactive, engaging in a process of persuasion, promotion and networking. Entering the fray of crisis diagnosis and response was of course not a function of formal duty, or office holding responsibilities for any of the individuals mentioned here. Their material interests in pushing MPR in conventional terms were also far from clear cut. In the case of each of these individuals there seems to have been a genuine intellectual commitment to MPR ideas and analysis and a seeming sense of public duty to explain and spread these ideas and proposals[13]. Finnemore and Sikkink identify this as 'ideational commitment' when norm entrepreneurs promote ideas because they genuinely believe in them, even though they have no effect on their own well being (Finnemore and Sikkink, 1998, p.898). 'Ideational commitment' manifested itself in a genuine desire to

persuade others of the correctness or strength of their analysis based on lines of reasoning and logical analyses of behaviours and processes. Scoping condition P3 - persuasion and promotion, - was therefore an essential component part of the macroprudential ideational shift.

*P4 =Plausibility and Performance*

Of course such persuasive and promotional strategies were only successful because others became more receptive to these arguments. A fourth condition of plausibility and prior performance helps to explain why macroprudential arguments became increasingly prominent. P4 is plausibility. Plausibility is an undoubted subjective quality and is the result of an inherently social process. It is the question of whether the arguments and claims one makes are judged to be believable by others. In an institutional context a similar, although not identical concept, is the idea of 'reputational authority' (Broome and Seabrooke, 2011, Sharman, 2007). Plausibility is the outcome of evaluative judgements others make of an individual's prior performance (Brennan and Pettit, 2004). Within the ideational realm it is a specific by product of the broader social allocation system that Brennan and Petit refer to as the intangible hand of the economy of esteem (Brennan and Petit, 2004). If the esteem an individual is allocated by those in their immediate reference group rises due to their prior performance and because their track record in advancing analyses and arguments results in them being ranked as one of the best performing individuals in the collective judgement of others within that reference group, so too will the plausibility and believability of their judgements, arguments and prescriptions. Plausibility is therefore directly correlated to social status and standing, which is determined by performance and a collective judgement of that performance by others. MPR norm entrepreneurs' high level of performance in making a series of prescient calls prior to the crisis led to these individuals enjoying rising levels of

professional esteem based on a track record of making the right calls. This had the affect of increasing the willingness of politicians and public officials to listen to these arguments, leading to a general momentum and consensus in favour of developing macroprudential policy. Enhanced esteem and professional standing was also a resource MPR advocates could deploy in advancing their persuasive strategies and arguments. William White for example became one of the most in demand speakers at central banks throughout the world. Macroprudential concepts and proposals therefore emerged as the most intellectually cogent, coherent and plausible set of proposals on which the most credible and plausible post crisis individuals seemed to have broad base line agreement. Ultimately, in professional technocratic ecologies of the sort described in this paper, professional esteem is a key currency and it is ideas, analyses and persuasive strategies that provide the route to esteem. Esteem and by association, plausibility, is however a social good that has to be continuously cultivated and nurtured through performance and therefore it remains to be seen whether these gains for the macroprudential perspective are of a short or longer term nature, and this will primarily be determined by whether MPR can evolve into a workable and practical policy agenda, which enjoys a reasonable level of success.

In the context of the four scope conditions identified here macroprudential ideas have emerged as the foundational premises shaping many of the key proposals emerging from the BCBS, the FSB and central banks. This 'macroprudential ideational shift' was the result of an 'insiders coup d'etat,'[14] which displaced the prior efficient markets orthodox. As a consequence, the European Systemic Risk Board (ESRB) in the EU, the Financial System Oversight Council (FSOC) in the US and the Financial Policy Committee (FPC) in the UK have all been established and are to be given some macroprudential responsibilities. The Basel III agreement has a macroprudential component involving countercyclical capital buffers and the Financial Stability Board has been charged with co-ordinating and reporting

on macroprudential policy instruments and reforms. The construction of a macroprudential policy regime of sorts is very much underway.

**Does the Macroprudential Ideational Shift Really Matter?**

> *Macroprudential policy is a new ideology and a big idea. That befits what is, without question, a big crisis. There are a great many unanswered questions before this ideology can be put into practice. These questions will shape the intellectual and public policy debate over the next several decades, just as the great depression shaped the macroeconomic policy debate from the 1940s to the early 1970s (Haldane, 2009, p.1).*

As Andrew Haldane's comments above indicate, macroprudential ideas have become a powerful presence in national and international regulatory policy communities. At this point, the sceptical reader might be forgiven for asking, does the macroprudential ideational shift really matter? Evidence that MPR is making a tangible difference in the financial world remains thin. Many large banks and investment firms seem intent on 'business as usual'. However, to dismiss the shift towards MPR in this way would be premature and would miss the potential significance of the ideational shift that occurred in the exceptional period of crisis politics during 2008-09.

The significance and implications of the shift towards MPR become clearer when we consider the position of Paul Tucker, Deputy Governor for financial stability at the Bank of England. For Tucker the move from 'a default assumption that core markets are more or less efficient most of the time', to, 'thinking of markets as inefficient, riddled with preferred habitats, imperfect arbitrage, herding and inhabited by agents with less than idealized rationality', constitutes a 'gestalt flip' (Tucker, 2011, pp.3-4). Thomas Kuhn, of course, famously compared the shift from one paradigm to another to a 'gestalt flip' (Kuhn, 1996). Peter Hall later used this Kuhnian conception to explore the circumstances under which a

shift from one policy paradigm to another took place (Hall, 1993). For Hall, a paradigm shift was evident when third order change occurred - when there was a radical change in the overarching terms of policy discourse, in the hierarchy of goals behind policy and in causal assumptions or accounts of how the world facing policy makers actually works. The macrprudential shift fits with such a conception of third order change because it has involved a widespread movement from assuming financial markets are efficient most of the time, to viewing them as characterised by myopia, procyclical patterns and herd behaviour, representing a completely different and diametrically opposed set of assumptions about how the financial world actually operates. At the same time, the movement from a focus solely on the safety and soundness of individual institutions, to viewing risk as a systemic and endogenous property that requires a macro regulatory top down focus, represents a substantial change in the hierarchy of policy goals. In Hall's own terms therefore, the macroprudential ideational shift represents an example of third order change.

However, if sequencing is all important in understanding how ideas and interests interrelate and how changing ideas can result in policy and social change, then the macroprudential shift also represents a very unusual ordering or sequencing, both in terms of the original formulation laid out by Hall, and in subsequent research into how policy paradigms evolve and change (Hall, 1993, Oliver and Pemberton, 2004). Hall also distinguished between first order change – changes in day to day policy decisions, or quantitative adjustments in the setting of policy, and second order changes to the policy instruments and institutional settings used to attain third order policy objectives. For Hall a paradigm shift was evident when change took place in all three of these components of policy simultaneously (Hall, 1993, p.279). In the case of the macroprudential ideational shift a third order change in overarching assumptions and policy objectives, has largely preceded the development and implementation of second order and first order policy instruments and

settings. If all three types of change are required for a paradigm shift therefore, the macroprudential shift is best conceived of as an ideational shift, which can only constitute a paradigm shift once first and second order macroprudential policies have actually been developed, implemented and become operational.

The scholarly importance of the macroprudential ideational shift becomes clearer when we revisit Hall's classic account of the shift in British macroeconomic from Keynesian to Monetarism. In this case, the progressive accumulation of anomalies in the existing Keynesian paradigm, resulted in various forms of experimentation with first and second order monetarist style policy changes before a third order change in overarching policy objectives eventually transpired. The basic formulation in this case was 1+2 = 3, (eventually). In an interesting reversal of the sequencing of the paradigm shift in British macroeconomic policy in the 1970s, the macroprudential shift has constituted a shift straight to 3, by passing 1+2. During 2009, the insiders coup d'etat outlined in the previous section, resulted in a form of third order change before second and first order policies had been fully worked out. This would, suggest that the macroprudential ideational shift is different from the case considered by Hall and the process of paradigm evolution identified by Oliver and Pemberton (Oliver and Pemberton, 2004). The efficient markets orthodoxy may well have been progressively accumulating anomalies during the period 2003-2008, but they were not perceived as such by a dominant coalition of actors in the regulatory policy community and consequently there was no period of experimentation with first and second order policy from outside of the efficient markets paradigm. Instead as the dramatic events of 2008 appeared to render many of the assumptions and analytical claims of the efficient markets perspective obsolete, MPR advocates moved swiftly and opportunistically to fill the resulting ideational vacuum. In this respect, financial crises are defined not just by material happenings but also by what happens

to the claims and ideas that justified prior practice and whether new ideas emerge which give rise to alternative realities and constitute a critical turning point (Hay, 2011, Gamble, 2009).

In relation to MPR, only now is a process of experimentation with first and second order policy development beginning (see figure 2). As voices at the Bank of England have pointed out, ‘the state of macroprudential policy resembles the state of monetary policy just after the second world war, with patchy data, incomplete theory and negligible experience, meaning that MPR will be conducted by trial and error’ (Aikman, Haldane, and Nelson, 2011). Hence we have entered a fourth phase of policy experimentation in the development of MPR (see figure 2). In this case 3 might eventually = 2+1. This makes the macroprudential ideational shift an interesting test case for evaluating whether successful paradigm shifts always follow the 1+2=3 sequence identified by Hall, or whether it is possible for them to be sustained on the basis of a 3=2+1 sequence, without prior first and second order policy experimentation.

Another difference to the case considered by Hall is that the macroprudential shift has involved a third order shift primarily instigated by insider elites and technocrats, while third order change in Hall’s case of British macroeconomic policy was promoted by politicians and societal actors such as the media and think tanks. The very nature of the macroprudential shift poses the question of whether technocratic elites can successfully instigate and crucially sustain a third order change, or whether successful durable third order change has to emanate from wider societal and political actors. The relative failure of macroprudential norm entrepreneurs to engage mass publics and build a wider popular support base to enhance the political legitimacy of macroprudential ideas, may yet prove to be the Achilles heel of macroprudential norm entrepreneurs’ persuasive strategies (Widimaier, Blyth and Seabrooke, 2007, Thirkell-White, 2009). However, the different source of third order change also reflects the differing political dynamics of macroeconomic policy and financial regulatory policy. Macroeconomic policy is always a central plank of any aspiring political party’s programme

to govern and a key part of its communications with the electorate. Financial regulation, although important is less central to political manifestoes, and the understanding of politicians and the public is often more reliant on technocrats. Changes in the regulatory domain, often little noticed, have in the past led to change in the macroeconomic domain. Notably the macroeconomic shift in the UK referred to by Hall, was preceded by and partly a function of changes in the financial system such as the decision to allow the euro markets flourish and liberalisation of debt and credit markets (Baker, 1999).

In policy terms, this third order ideational shift matters for two reasons. First, it has switched the principal cognitive filter employed by policy makers to an entirely different setting. The effect of this is to burst the hermetically sealed efficient markets bubble most financial regulators resided in prior to the crisis. Policy makers are now using various combinations of the four key constituent concepts of fallacy of composition, procyclicality, herding, and complex externalities to inform and guide regulatory initiatives and practice. Because the cognitive filter employed by regulators has been switched to a different setting, a whole range of proposals can now be placed on the table and seriously discussed, which were previously out of reach. These include countercyclical capital requirements; dynamic loan loss provisioning, countercyclical liquidity requirements; administrative caps on aggregate lending; reserve requirements; limits on leverage in asset purchases; loan to value ratios for mortgages; loan to income ratios; minimum margins on secured lending; transaction taxes; constraints on currency mismatches; capital controls; and host country regulation (Elliot, 2011). Indeed, Brazil has recently used macroprudential reasoning to justify the use of capital controls (Banco Central da Brasil, 2010,) much to the disapproval of macroprudential advocates (Borio, 2011, FSB, IMF, BIS 2011), illustrating the extent to which the macroprudential frame remains a highly contested and contingent one. Nevertheless, the conceptual foundations of MPR have taken hold in the regulatory community with the result

that regulatory debates have taken a qualitatively different form, in a fashion which should empower regulators and reduce the capacity of private actors to drive the regulatory debate in the fashion witnessed during the period in which the efficient markets position was ascendant (Johnson and Kwak, 2010, Baker, 2010, Tsingou, 2008). Crucial here is the argument that no model of political economy and no government can afford to sustain the costs, in terms of lost macroeconomic output generated by huge financial explosions such as the one seen in 2008 (Alessandri and Haldane, 2009). Second, many of these macroprudential instruments are designed to reduce the scale and restrict the scope of financial transacting (Turner, 2011). This at least is suggestive of lower levels of financialisation, which may require Anglo-American societies in particular to engage in some reformulation of their growth models and social settlements, although that is a long term enterprise. In the words of Paul Tucker therefore, what appear to be quite technical things may have significant effects on the behaviour and structure of the financial system over time (Tucker, 2011, p.7.)

Opposition to this macroprudential third order ideational shift has been surprisingly muted even from the private sector. Only recently, has the IIF made a generally encouraging and supportive submission to international authorities on the subject of MPR (IIF, 2011). One possible reason for this relative lack of action is that few in the private sector have understood, or been aware of the potential significance of the macroprudential ideational shift. Another possibility is that banks have calculated that macroprudential policies could improve their long term stability and appease public anger at their behaviour. Further empirical research into private sector preferences and strategies in relation to macroprudential policy will be important in advancing our understanding of the new political economy of MPR. A distinct probability is that private sector lobbies will focus their energies on influencing the first and second order macroprudential policies that will have most impact on their day to day activities. Evidence from the Basel III process suggests that such a pattern

was evident in the negotiation of that agreement as many regulators remain unhappy that capital equity ratios were not set high enough, following some private sector pressure (Turner, 2011, Miles et al, 2010). The relative lack of concerted private sector opposition in principle to the macroprudential agenda may also be explained by the countercyclical nature of much macroprudential policy. During a period of financial deleveraging, countercyclical macroprudential policies place little burden on private actors. Private opposition is likely to intensify during a growth or boom phase when counter cyclical capital requirements become more onerous. Moreover, the relative novelty both of macroprudential ideas and policy instruments mean that there is also likely to be a process of 'puzzling' taking place amongst private sector lobbies as they figure out what their material interests are in relation to macroprudential policies, and of course macroprudential ideas will not be static but will continue to evolve incrementally as we enter a phase of policy experimentation (Carstenen, 2011, Figure 2).

Nevertheless, after an exceptional phase of crisis politics when prior orthodoxies were overturned and displaced, a more normal phase of conventional interest based politics and contests between regulators and regulated can be expected to emerge over the coming years, as contests over the detail over the content and institutional design of macroprudential regulatory regimes are fought out. Quite surprisingly and counter intuitively supposedly conservative regulators have emerged at the vanguard of efforts to progressively transform the financial system, in ways which have reconfigured the politics and political alignments of financial regulation in surprising ways, largely due to their adoption of the macroprudential frame. As the Brazilian case illustrates, states will no doubt disagree over the interpretation of macroprudential ideas and what counts as macroprudential and what does not, while also seeking to gain competitive advantage for their own financial sectors (Mugge and Stellinga, 2010). Politicians are likely to come under pressure from private interests to constrain the

regulators in their application of macroprudential philosophies and policies. In the UK for example, the Treasury select committee is already seeking to constrain the powers and autonomy of the FPC to exercise macroprudential discretion (Masters and Giles, 2011). Worries that the macroprudential agenda is ‘still born’ persist because a new regulatory architecture has still not taken route (Blyth, 2011), and regulators, as evident in the VaR component of Basel III, continue to write rules for risk based world, rather than an uncertain one (Blyth, 2011, Lanoo, 2011 see endnote 8). These difficulties are compounded by the sequencing issue outlined above and the question of whether 3 can ever = 2+1. Furthermore, as Adair Turner explains, ‘in an ideal world, we would choose not to start from here,’ – ‘a starting point of sub optimally high leverage, which unless managed carefully will slow recovery from crisis induced recession’ (Turner, 2011), a process which might be exacerbated by the turn to austerity policies, thus derailing the macroprudential shift (Blyth, 2011).

This last point reflects the fact that the macroprudential agenda’s great economic strength is also its great political weakness. Countercyclicality is politically treacherous. In an economic downturn, immediately following a crisis, when the political will for more regulation is precisely at its greatest, the macroprudential perspective advocates a more generous approach to regulatory and capital requirements, but then favours tightening these requirements during a growth phase, precisely when the political appetite for such requirements may have dissipated, as the memory of the crisis has faded. This leaves macroprudential regulators with a tricky political condundrum to solve, - the question of how to arm themselves with sufficient institutional autonomy, policy capability and discretion to neutralise procyclical political pressures. Answers to this question will materialise from the interaction of policy makers ongoing learning in an era of macroprudential experimentation and the institutional mediation of interest based politics, as phases 4 and 5 in figure 2 merge into one another. Nevertheless, whether 3 can ever = and lead to 2+1, will be an intriguing

laboratory and test case for scholars of ideational politics and sequencing over the coming years.

FIGURE 2 HERE

**Conclusions**

After providing a brief history and genealogy of macroprudential ideas, outlining four constituent concepts of fallacy of composition, procyclicality, herding and complexity, this article moved on to explain why these ideas surged in popularity once the financial crisis reached its peak in the autumn of 2008. The explanation identified four conditions of prior intellectual and institutional presence (presence = P1), the improved professional position of macroprudential advocates (position = P2), the promotional, persuasive and networking strategies of a small number of norm entrepreneurs (promotion = P3), and the growing plausibility of these ideas as devices for navigating and responding to the financial crisis, based on the rising professional standing and esteem of the individuals advocating these ideas due to their prior performance (plausibility= P4). These norm entrepreneurs operated within linked professional ecologies, to affect an insider's coup d'etat, piloting their ideas to the centre of the policy agenda. Once the crisis reached its peak, the prevailing context of these professional ecologies became a great deal more sympathetic to the arguments of MPR norm entrepreneurs, enabling them to institutionalise their ideas and concepts as the principal interpretative frame for diagnosing and responding to the crisis in key technocratic regulatory networks such as the FSB, the BCBS and a number of leading central banks. Surprisingly, the concept of an economy of esteem (Brennan and Pettit, 2004), which, it has been suggested in this article, shapes plausibility, has been neglected in constructivist political economy, despite the fact it complements this approach, by highlighting crucial determinants of the success or

failure of their ideas[15]. In future research, constructivism might be well served by engaging with the concept of an economy of esteem, so as to more fully understand the social processes that determine why individuals promote certain ideas and how certain ideas enjoy success over others.

The final section of the paper enquired whether the macroprudential ideational shift really matters given a pattern of business as usual in the financial world. Dismissing the shift to MPR is not only premature given the protracted task of constructing it on its own countercyclical terms, it also misses the point that MPR represents a 'gestalt flip' that earmarks a potential trajectory change in financial regulation that is still in its infancy and so does not as yet look conspicuously different from the previous status quo. This 'gestalt flip,' it has been argued, is equivalent to Peter Hall's notion of third order change in the overarching assumptions and goals informing policy. Unusually, this third change not only occurred very suddenly through an insiders coup d'etat, it was also not preceded by processes of first and second order policy experimentation, which in the past have either resulted in the evolution or consolidation of the existing paradigm, or an eventual paradigm shift in a 1+2=3 formulation (Hall, 1993, Oliver and Pemberton, 2004). Whether a reversed 3 = 2+1 sequence can materialise in this case will be an interesting test case for scholars of ideational politics. What is clear is that the macroprudential agenda has to overcome considerable procyclical political obstacles, and it will continue to co-exist with some of the old risk management practices[16]. Finally, technocratic regulators rather than wider publics and societal actors have been the drivers behind this third order ideational shift. The result is that regulators and central banks are the current driving forces behind a potentially progressive transformation of the financial system by stealth, in a fashion that few would have considered likely a few years ago. This has had the affect of reconfiguring the political dynamics and coalitions in the regulatory arena, as regulators seek to carve out regulatory and policy space for themselves to

implement macroprudential philosophies, often in the face of political and industry opposition. How these coalitions interact and how the arguments they use develop over the coming years will shape the course and development of macroprudential regulation both internationally and nationally.

## Bibliography


Aikman, D Haldane and Nelson, B (2011) "Curbing the Credit Cycle," Vox, Http://voxeu.org/index.php?q=node/6231, accessed 12th May 2011.

Alessandri, P and Haldane, A (2009) "Banking on the State," *Bank of England Discussion Paper.*

Baker, A (2010) "Restraining Regulatory Capture: Anglo-America, Crisis Politics and Trajectories of Change in Global Financial Governance," *International Affairs,* vol.86:no.3, pp.647-664.

Baker, A (2009) "Deliberative equality and the transgovernmental politics of the global financial architecture," *Global Governance,* 15;2. pp. 195-218.

Baker, A (2006) *The Group of Seven: Finance Ministries, Central Banks and Global Financial Governance,* London: Routledge.

Baker, A (1999) *"Nébuleuse* and the „Internationalization of the State in the UK: The Case of HM Treasury and the Bank of England," *Review of International Political Economy,* Vol.6, No.1, , pp.79-100

Balizil, B and Schiessl, M (2009) "The Man Nobody Wanted to Hear: Global Banking Economist Warned of Coming Crisis," *Spiegel online,* 07/08, available at http://www.spiegel.de/international/business/0,1518,635051,00.html

Banco Centro do Brasil (2010) "CMN and BC adopt measures of macroprudential nature," available at http://www.bcb.gov.br/textonoticia.asp?codigo=2823&idpai=NEWS

Bernanke, B (2011) "Implementing a Macroprudential Approach to Supervision and Regulation," 47th Annual Conference on Bank Structure and Competition, Chicago, Illinois, May 5.

Best, J (2010) "The Limits of Financial Risk Management: Or, What We Didn't Learn from the Asian Crisis", *New Political Economy,* Vol. 15, No. 1, 2010, 29-49

BIS (1986) *Recent Innovations in International Banking,* Report prepared by a study group established by central banks of the G10 countries, Basel, October (Promisel Report).

BIS (1997) *67th Annual report,* Basel, June.

BIS (2006) *76th Annual Report,* Basel, June.

Blyth, M (2011) “This Time Really is Different: Europe, the Financial Crisis and ‘Staying on Top’ in the 21st Century,” prepared for Breznitz and Zysman (eds). *“Can the Rich Countries Stay Rich?”* on file with the author.

Blyth, M (2003) “The Political Power of Financial Ideas: Transparency, Risk and Distribution in Global Finance,” in Kirshner, J (ed.) *Monetary Orders: Ambiguous Economics, Ubiquitous Politics,* Ithaca: Cornell University Press, pp. 239-259.

Blyth, M (2002) *Great Transformations: Economic Ideas and Institutional Change in the Twenty First Century,* Cambridge: Cambridge University Press.

Blyth, M and Shenai, N (2010) “The G20’s Dead Ideas: Why Fiscal Retrenchment is the Wrong Response to the Crisis,” *Foreign Affairs,* July

Borio, C (2011) “Implementing a Macroprudential Framework: Blending Boldness and Realism,” *Capitalism and Society,* 6;1, pp.1-23.

Borio, C (2009) “Implementing the Macroprudential Approach to Financial Regulation and Supervision,” Banque de France, *Financial Stability Review,* No.13, September.

Borio, C, Tarashev, N and Tsatsaronis, K (2009) “Allocating System Wide Tail Risk to Individual Institutions,” *BIS mimeo.*

Borio, C and Drehmann, M (2008) “Towards an Operational Framework for Financial Stability: Fuzzy Measurement and its Consequences,” 12th Annual Conference of the Banco Central de Chile, Santiago 6-7 November, available at http://www.bcentral.cl/eng/conferences-seminars/annual-conferences/2008/program.htm

Borio, C and White, W (2004)”Whiter Monetary and Financial Stability: The Implications for Evolving Policy Regimes,” BIS working paper 147, Bank for International Settlements, Basel

Borio, C, Furfine, C and Lowe, P (2001) “Procyclicality of the Financial System and Financial Stability Issues and Policy Options,” *BIS Papers,* no.1. March, pp.1-57.

Broome, A and Seabrooke, L (2011) “Seeing Like an International Organisation,” *New Political Economy,* iFirst, accessed 25 May 2011.

Brennan, G and Pettit, P (2004) *The Economy of Esteem: An Essay on Civil and Political Liberty,* Oxford: Oxford University Press.

Brunnemier, M Crockett, A, Goodhart, C. Persaud, A. Shin, H (2009) *The Fundamental Principles of Financial Regulation.* Geneva Report on the World Economy 11, Geneva: International Centre for Monetary and Banking Studies, London: Centre for Economic Policy Research.

Buiter, W (2009) ‘Lessons from the global financial crisis for regulators and supervisors’, paper presented at ‘The global financial crisis: lessons and outlook’, 25th anniversary workshop of the Advanced Studies Program of the Institut für Weltwirtschaft, Kiel, 8–9 May, available at http://www.nber.org/~wbuiter/asp.pdf

Carstensen, M (2011) "Ideas are not as stable as political scientists want them to be: A theory of incremental ideational change", *Political Studies*, 59 (3), 596-615.

Chwieroth, J (2010) "How do Crises Lead to Change? Liberalizing Capital Controls in the Early Years of New Order Indonesia," *World Politics,*62:3, pp.496-527.

Claessens, S, Underhill, G and Zhang, X (2008) "The Political Economy of Basle II: the costs for poor countries," *The World Economy,* 31:3, pp.313-344.

Clement, P (2010) "The term 'macroprudential': origins and evolution," *BIS Quarterly Review,* March, pp.59-67.

Constancio, V (2011) "Macroprudential Policy: Strengthening the Foundations, Enhancing the Toolkit and Taking Action," First Conference of the Macro-prudential Research Network (MaRs), Frankfurt, 5th October.

Crockett, A (2000) "Marrying the micro and macroprudential dimensions of financial stability*," BIS speeches*, 21 September.

De Laroisiere Group (2009) *Report of the High Level Group on Financial Supervision in the EU,* Brussels.

Eatwell, J (2009) "Practical Proposals for Regulatory Reform," in Subacchi, P and Monsarrat, A (eds). *New Ideas for the London Summit: Recommendations to the G20 Leaders,* London: Royal Institute for International Affairs Chatham, The Atlantic Council, pp.11-15.

ECB (2010) European Central Bank, Monthly Bulletin, June, Frankfurt.

Elliot, D (2011) "Choosing Among Macroprudential Tools," The Brookings Institute, available at http://www.brookings.edu/~/media/Files/rc/papers/2011/0607_macroprudential_tools_elliott/0607_macroprudential_tools_elliott.pdf

Finnemore, M and Sikkink, K (1998) "International Norm Dynamics and Political Change," *International Organization,* 52:4, pp.887-917.

Finlayson, A (2009) 'Financialisation, Financial Literacy and Asset-Based Welfare', *British Journal of Politics and International Relations,* 11:3, 400-421

FSA (2009) "The Turner Review," FSA: London.

FSF (2008) "Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience," 7 April. Available at http://www.financialstabilityboard.org/publications/r_0804.pdf

FSF (2009) "Report on Addressing Procyclicality in the Financial System," FSF, Basel, April 2009, available at: http://www.financialstabilityboard.org/publications/r_0904a.pdf

FSF, BCBS, IMF (2011) "Macroprudential Policy Tools and Frameworks," Progress Report to G20, 27th October.

G20 (2009) G20 Communiqué, Meeting of Finance Ministers and Central Bank Governors, Horsham, United Kingdom, 14 March 2009.

G30 (2009) Group of Thirty *Financial Reform: A Framework for Financial Stability,* Washington DC.

G30 (2010) Group of Thirty *Enhancing Financial Stability and Resilience: Macroprudential Policy, Tools and Systems for the Future,* Washington DC.

Galati, G and Moessner, R (2011) "Macroprudential Policy: A Literature Review," BIS Working Paper No. 337

Gamble, A (2009) *The Spectre at the Feast: Capitalist Crisis and The Politics of Recession* , London: Palgrave

Germain, R (2010) 'Financial Governance and Transnational Deliberative Democracy", *Review of International Studies*, Vol. 36, no. 2, pp. 493-509.

Haldane, A (2009) "Small Lessons From a Big Crisis," Remarks at the Federal Reserve Bank of Chicago, 45th Annual Conference, "Reforming Financial Regulation," 8 May 2009.

Haldane, A (2010) "The $100 Billion Question," Bank of England Discussion Paper, Originally presented at the Institute of Regulation & Risk, Hong Kong, March 2010.

Haldane, A and May, R (2011) "Systemic Risk in Banking Ecosystems," *Nature,* 469, pp.351-355.

Hall, P (1993) "Policy Paradigm, Social Learning and the State: The case of economic policymaking in Britain," *Comparative Politics,* 25:3, pp.275-96.

Hay, C (2011) "Pathology Without Crisis? The Strange Demise of the Anglo Liberal Growth Model," *Government and Opposition,* Vol.46, No.1, pp.1-31

Helleiner, E (2010) "A Bretton Woods Moment? The 2007-08 Crisis and the Future of Global Finance," *International Affairs,* 86:3, (May), pp.619-636.

Hellwig, M (1995) "Systemic Aspects of Risk Management in Banking and Finance," *Swiss Journal of Economics and Statistics,* 131, pp.723-37.

Henderson, D (2008) "Are we Ailing from too Much de-Regulation?" *Cato Policy Report,* available from http://www.cato.org/pubs/policy_report/v30n6-1.html

IIF (2011) "Macroprudential Oversight: An Industry Perspective," Submission to the International Authorities. Available at http://www.iif.com/regulatory/article+971.php

IMF (2000) "Macroprudential Indicators of Financial Soundness," *Occasional papers,* no.192. April.

IMF (2001) "Financial Soundness Indicators," *Policy Papers,* No.4, Monetary and Exchange Affairs Department, June.

Johnson, S and Kwak, J (2010) *13 bankers: The Wall Street take over and the next financial meltdown,* New York: Pantheon.

Keohane, R (2010)"The Economy of Esteem and Climate Change," *St Antony's International Review*, 5:2, pp.16-28.

Knight, F (1921) *Risk, Uncertainty and Profit,* Boston MA: Houghton Miffin

Kuhn, T (1996) *The Structure of Scientific Revolutions, 3rd Revised Edition* Chicago: University of Chicago Press.

Langley, P (2008) *The Everyday Life of Global Finance: Saving and Borrowing in Anglo America*, Oxford: Oxford University Press

Lanoo, K (2011) "The Forest of Basel III has too many trees," *Commentary- Centre for European Policy Studies,* 10 February.

Masters, B and Giles, C (2011) "Parliament and Bank Squaring Up Over Square Mile," *Financial Times,* November 8.

Mattli, W and Woods, N (2009) "In Whose Benefit? Explaining Regulatory Change in Global Politics," in Mattli and Woods, eds. *The Politics of Global Regulation,* Princeton NJ: Princeton University Press, pp.1-43.

Miles, D Yang, J and Marcheggiano, G (2011), "Optimal Bank Capital," External MPC Unity, Discussion Paper, No.31, January 2011.

Minsky, H (1982) "Introduction" in *Inflation, Recession and Economic Policy,* Brighton: Harvester Wheatsheaf.

Minsky, H (1977) "The Financial Instability Hypothesis: An Interpretation of Keynes and an Alternative to 'Standard' Theory," *Nebraska Journal of Economics and Business,* 16:1, pp.59-70.

Moschella, M (2011) "Lagged learning and the Response to Equilibrium Shock: The Global Financial Crisis and IMF Surveillance," *Journal of Public Policy,* 31:2, pp.1-21.

Mugge, D (2011) "From Pragmatism to Dogmatism: European Union Governance, Policy Paradigms and Financial Meltdown," *New Political Economy,* Vol.16: 2, pp.185-206.

Mugge, D and Stellinga, B (2010) Absent alternatives and insider interests in postcrisis financial reform. *Der Moderne Staat : Zeitschrift für Public Policy, Recht und Management, 3*(2), 321-338.

Oliver, M and Pemberton , H (2004) "Learning and Change in 20th Century British Economic Policy," *Governance* 17:3, pp.415-441.

Persaud, A (2010) "The Locus of Financial Regulation: Home versus host," *International Affairs,* vol.86:3, pp.637-646.

Persaud, A (2009) "Macroprudential Regulation: Fixing Fundamental Market and Regulatory Failures," Crisis Response (Note number 6), The World Bank Group, Financial and Private Sector Development, July.

Persaud, A (2000) "Sending the herd off the cliff edge: the disturbing interaction between herding and market-sensitive risk management systems," *World Economics*, 1;4, pp.15-26.

Polsky, A (2000) "When Business Speaks: Political Entrepreneurship, Discourse and Mobilisation in American Partisan Regimes," *Journal of Theoretical Politics,* 12:4, pp.455-476.

Porter, T (2003) "Technical Collaboration and Political Conflict in the Emerging Regime for International Financial Regulation," *Review of International Political Economy,* 10;3, pp.520-51.

Schwartz, H. and L. Seabrooke. (2008) 'Varieties of Residential Capitalism in the International Political Economy: New Politics in Old Welfare States', *Comparative European Politics,* 6)(3): 237–261.

Seabrooke, L (2006) *The Social Sources of Financial Power: Domestic Legitimacy and International Financial Orders,* Ithaca NY: Cornell University Press.

Seabrooke, L and Tsingou, E (2009) "Revolving doors and linked ecologies in the world economy: Policy locations and the practice of international financial reform," CSGR Working Paper 260/ 2009 available at http://www2.warwick.ac.uk/fac/soc/csgr/research/workingpapers/2009/26009.pdf

Sharman, J (2007) "Rationalist and Constructivist Perspectives on Reputation," *Political Studies* 55 pp. 20-37

Taleb, N and Blyth, M (2011) "The Black Swan of Cairo: How Suppressing Volatility Makes the World Less Predictable and More Dangerous," *Foreign Affairs,* 90:3, pp.33-39.

Thirkell-White, B (2009) "Dealing with the banks: populism and the public interest in the global financial crisis," *International Affairs,* 85:4 , pp.689-711

Tsingou, E (2008) "Transnational private governance and the Basel Process: banking regulation and supervision, private interests and Basel II," in Jean Christophe Graz and Andreas Nolke, eds. *Transnational private governance and its limits,* London: Routledge, pp.58-68.

Tsingou, E (2009) "Regulatory Reactions to the global credit crisis: Analysing a policy community under stress," in Helleiner, E, Pagliari, S and Zimmerman, H (eds.) *Global Finance in Crisis: The Politics of International Regulatory Change*, London: Routledge,pp.21-36.

Tucker, P (2010) "Remarks to the Institute of International Bankers, Annual Breakfast for Regulatory Dialogue," Washington DC, 11 October.

Tucker, P (2011) "Discussion of Lord Turner's Lecture, 'Reforming Finance: Are We Being Radical Enough?" Clare Distinguished Lecture in Economics, Cambridge 18 February.

Tucker, P (2011b) "Macroprudential Policy: Building Financial Stability Institutions," 20th Annual Hyman P Minsky Conference, New York, 14 April.

Turner, A (2011) "Reforming Finance: Are We Being Radical Enough?" Clare Distinguished Lecture in Economics and Public Policy, Cambridge, 18 February.

UN (2009) UN Commission of Experts on Reforms of the International Monetary and Financial Systems, Recommendations, New York: United Nations

Underhill, G and Zhang, X (2008) "Setting the Rules: Private Power, Political Underpinnings and Legitimacy in Global Monetary and Financial Governance," *International Affairs,* 84:3, pp.535-54.

Underhill, G (1995) "Keeping Governments out of Politics: Transnational Securities Markets, Regulatory Co-operation and Political Legitimacy," *Review of International Studies,* 21:3, pp.251-78.

Warwick Commission (2009) "The Warwick Commission on international financial reform: in praise of unlevel playing fields", December, Coventry: University of Warwick.

White, W (2006) "Procyclicality in the Financial System: Do we need a new macrofinancial stabilisation framework?" *BIS Working Paper,* no.193, January.

White, W (2009) "Modern Macroeconomics is on the Wrong Track," *Finance and Development,* December, pp. 15-18.

Widmaier, W, Blyth, M and Seabrooke, L (2007) "Exogenous Shocks or Endogenous Constructions? The Meanings of Wars and Crises," *International Studies Quarterly,* 51, pp.747-759.

Woodward, B (2000) *Maestro: Greenspan's Fed and the American Boom,* Simon Schuster: New York.

---

[1] Earlier versions of this paper have been presented at the University of Birmingham UK May 2010, Brown University USA June 2010, ECPR Research Sessions EUI Florence May 2011, and at the Department of Business and Politics, Copenhagen Business School, September 2011. The author would like to record his gratitude to Ole Jacob Sending, Wes Widmaier, Mark Blyth, Len Seabrooke, Abe Newman, Eleni Tsingou, Eric Helleiner, Steve Nelson, Ove Pedersen, John Campbell, Andre Broome, Kevin Young, Manuella Moschella, Duncan Wigan, Robert Boyer and James Perry, for some very helpful discussions and comments on earlier drafts of this paper, as well as the useful guidance and comments of three anonymous *NPE* reviewers. Remaining shortcomings are my responsibility alone.

[2] For example Helleiner's account of Bretton Woods identifies four phases beginning in the early 1930s moving through to a consolidation phase in the 1950s. Likewise Blyth's account of the rise of embedded liberalism in the US begins with the election of Roosevalt in 1932 and carries through to the enactment of key legislation in 1947.

[3] Macroprudential issues did get discussed in BIS documents in the 1990s BIS (1995, 1997). The IMF also attempted to develop some macroprudential indicators after the Asian financial crisis as part of revamping of surveillance (IMF, 2000, 2001, Moschella, 2011).

[4] Note that microprudential is not an antonym of macroprudential. A microprudential approach can be a constitutent part of a macroprudential approach.

[5] Former Citigroup CEO Chuck Prince captured the essence of this in an interview in the Financial Times in July 2007, when he said, "when the music is playing you have to get up and dance." The down part of the cycle is captured by Warren Buffet's phrase that it is only when the tide goes out that you see who has been swimming naked.

[6] Counter cyclical capital buffers are often confused with the so called capital adequacy regime, or the regulatory capital institutions are required to hold to operate in the market. That capital is a charge not a buffer, because it cannot used by an institution to tide it over in bad times (Eatwell, 2009 ) Capital adequacy standards, in other words, are not counter cyclical. The Spanish system of dynamic provisioning is frequently cited by macroprudential advocates as an example of how such a system of countercyclicality might operate.

[7] William White formerly of the BIS has made the claim regarding Austrian school influences, but these intellectual influences are much less clearly identifiable than Minskyian ones. Essentially the Austrian school label refers to White's belief that public authorities often preside over and contribute to credit bubbles through an overly easy monetary policy stance.

[8]The Macroprudential policy programme is still evolving through a process of trial, error and experimentation as will be discussed in the final section of the paper. Microprudential approaches are not discontinued as a consequence of the macroprudential ideational shift, rather it is their adequacy that is disputed by the macroprudential case and so macroprudential approaches overlay, rather than replace Microprudential approaches altogether.

[9] Of course this is one of the many instances where the distinction between ideas and interests becomes blurred. National regulators for example might have recognised that MPR provided a route to equip them with more powers to police the market, opportunistically taking advantage of the fact market actors were on the back foot. While market actors may have calculated that macroprudential proposals constituted a least worst scenario, as populist anti bank sentiment surged and that such proposals even offered the opportunity to protect the industry from its own excesses. Further research is required to verify either of these hypotheses.

[10] Information revealed to author in private conversations.

[11] Meeting Chatham House, March 2009. Author in attendance.

[12] Meeting attended by author March 2009. Chatham House rules apply.

[13] This point emerges from many of my conversations with the individuals directly involved.

[14] The author is grateful to Mark Blyth for suggesting this insightful phrase.

[15] For an exception see Keohane, 2010.

[16] See endnote 8.