Este artigo analisa a questão do poder financeiro. Primeiramente, faz-se uma revisão teórica, enfocando a perspectiva de Dymski (2011) e de autores da economia política internacional. A seguir, exploramos de que maneira a evasão da regulação financeira pode ser vista como uma forma de poder financeiro. Argumenta-se que é uma tipo de poder que fomenta influência e autonomia, conceitos que ajudam a entender a concentração financeira em bancos universais. Dois casos recentes em que o setor financeiro pressionou agressivamente pela desregulamentação são analisados: o Imposto sobre Transações Financeiras (ITF), na Europa, e o Dodd-Frank, nos Estados Unidos. Evidências desses exemplos indicam que o setor financeiro utilizou uma série de estratégias políticas para ganhar “poder como autonomia”, tanto de governos quanto de pressões sociais, reforçando, assim, o papel das finanças no atual regime de acumulação.


THE POLITICAL ECONOMY OF FINANCIAL REGULATIONS AND THE POWER OF FINANCE: AN INTERPRETATION OF CURRENT REGULATORY TRENDS

This paper analyses the issue of financial power. Firstly, a theoretical review is made of the issue of financial power, focusing on the perspective of Dymski (2011) and of scholars from International Political Economy. Following, we explore how the evasion of financial regulation can be seen as a form of financial power. It is argued that it is a form of power that fosters influence and autonomy, concepts that help understanding the financial concentration in universal banks. Two recent cases where the financial sector has aggressively pushed for deregulation are analyzed: the Financial Transaction Tax (FTT) in Europe and the Dodd-Frank in the United States (U.S.). Evidence from these examples indicates that the financial sector has utilized a series of political strategies to gain power-as-autonomy both from governments and societal pressures, thus reinforcing the role of finance in the current accumulation regime.

Keywords: financial power; international political economy; financialization.

LA ECONOMÍA POLÍTICA DEL REGLAMENTO FINANCIERO Y EL PODER DE LAS FINANZAS: UNA INTERPRETACIÓN DE LAS TENDENCIAS REGLAMENTARIAS ACTUALES

Este artículo analiza el tema del poder financiero. En primer lugar, se hace una revisión teórica del tema del poder financiero, centrándose en la perspectiva de Dymski (2011) y de los académicos de la Economía Política Internacional. A continuación, exploramos cómo la evasión de la regulación
Financiera puede verse como una forma de poder financiero. Se argumenta que es una forma de poder que fomenta la influencia y la autonomía, conceptos que ayudan a comprender la concentración financiera en los bancos universales. Se analizan dos casos recientes en los que el sector financiero ha presionado agresivamente por la desregulación: el impuesto a las transacciones financieras (FTT) en Europa y el Dodd-Frank en los Estados Unidos (EE. UU.). La evidencia de estos ejemplos indica que el sector financiero ha utilizado una serie de estrategias políticas para obtener poder como autonomía tanto de los gobiernos como de las presiones sociales, reforzando así el papel de las finanzas en el actual régimen de acumulación.

**Palabras-clave**: Poder Financiero, Economía Política Internacional, Financierización.

**JEL**: F50; F38; B59; F65.

You look at the size of our capital.
You look at the size of our balance sheet.
You look at the size of our people – it’s just enormous.

Gary Cohn

1 INTRODUCTION

The global economy has been characterized by an increasing number of crises. While many schools of economic thought have tried to interpret this tendency, there is still no consensus around what are the main factors that explain periods of financial instability. The broad literature exploring this phenomenon, which gained renewed attention after the 2007-2008 subprime crisis, has provided many insights that questioned mainstream views, mostly with the renewed attention to the work of Hyman Minsky, and challenged the "efficient-market hypothesis". As useful as the latter were for explaining market behavior in periods of relative stability, the numerous episodes of instability and crisis of the last decades have shown that it was inadequate to assess the dynamics of an accumulation regime that is intrinsically crisis prone (Guttmann, 2016).

One of the most important insights from the subprime crisis is that it has shown that economic theory has to look beyond its confines to find reasonable

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3. For a concise review on the efficient market hypothesis, see Fama (1970).
4. The utilization of the term accumulation regime here refers to the meaning of the expression utilized by scholars of the Regulation Theory, whereby forms of competitions, wage relations, types of state, monetary regimes and international relations configure a determined institutional framework that determines a path of growth and accumulation. For more on the issue, see Boyer and Saillard (2005).
explanations for periods of financial instability. In this regard, one element in particular has been continuously ignored both by mainstream and heterodox schools: the power of finance. In classics from Marx to Hilferding and Polanyi one finds discussions of financial power through concepts such as fictitious capital, finance capital and *haute finance*. However, in the last decades few have advanced a deeper discussion on this issue despite the increasing prominence of finance. Two notable exceptions are Andre Orléan (1999) in *Le pouvoir de la finance* and Gary Dymski (2011), who introduces the discussion around power in finance and its role in explaining the subprime crisis.

This paper focuses on the latter. Dymski’s (2011) assessment of the issue not only provides elements for interpreting the motives that lead to the subprime crisis but, more importantly, opens new venues of research that can further contribute to understanding the asymmetry, hierarchy and instability in the financial realm. Consequently, the objective of this paper is to contribute to the existing literature on power in finance by analyzing some insights from the field of international political economy.

After this brief introduction, the second part of this paper explores Dymski’s (2011) perspective on financial power in more length. Following, concepts of financial power developed by the school of International Political Economy are presented and a discussion is made on the importance of financial regulation as an analytical category for understanding financial power. In the next section two cases of recent deregulation pressures in the U.S. and in Europe are analyzed with the theoretical lenses drawn in the previous section with the goal of demonstrating how financial power materializes in a finance-led accumulation regime (Guttmann, 2016).

**2 POWER IN FINANCE**

There’s little doubt that finance has become a central feature of contemporary capitalism. According to Orléan (1999, p. 214), “contemporary economies have the central characteristics of bringing financial power to an unprecedented level and placing it at the very center of their accumulation regime”. The perspective that puts finance in the center of the accumulation regime is connected to a process

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5. A definition of financial instability is given by Chant et al. (2003, p. 3): “Financial instability refers to conditions in financial markets that harm, or threaten to harm, an economy’s performance through their impact on the working of the financial system. It can arise from shocks that originate within the financial system being transmitted through that system, or from the transmission of shocks that originate elsewhere by way of the financial system. Such instability harms the working of the economy in various ways. It can impair the financial condition of non-financial units such as households, enterprises, and governments to the degree that the flow of finance to them becomes restricted. It can also disrupt the operations of particular financial institutions and markets so that they are less able to continue financing the rest of the economy”.

6. In the original in French: “Les économies contemporaines ont pour caractéristiques centrales d’avoir porté le pouvoir financier à un niveau jamais atteint et de l’avoir placé au centre même de leur régime d’accumulation”.
of “financialization”, defined as “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies” (Epstein, 2005, p. 3). This phenomenon has been largely analyzed from different perspectives, mainly pointing to the changing characteristics of banks and money markets, to the increasing prominence of securitization and financial innovation, which ultimately led to a historic increase in both financial concentration and centralization (Guttmann, 2016).7

But what is financial power? Even though the notion of power is used on a daily basis (i.e. purchasing power parity, high-powered money) and became a standard concept for economics, there is no consensual definition of what it really means. While there are particular definitions for each field of knowledge, the definition of power purposed by Yale political scientist Robert Dahl (1957) still remains the most widely accepted among different areas of knowledge. According to the author, power is exercised when “A has power over B to the extent that he can get B to do something that B would not otherwise do” (Ibid., p. 202). Drawing from this insight, Lukes (1974) purposed a more subtle “dimension” of power. The author states that there is a first dimension that relates to direct coercion (i.e. imposing preferences through direct means), a second which is the power of agenda-setting and defining the issues that shall get more attention in an contested issue, and a third one, where actors involved are lead to believe that they share the same interests given that any divergent issues have been erased by the shaping of preferences, wants and thoughts of the subordinated party.

The latter definition approaches to some extent Marxist perspectives on power and hegemony that emphasize indirect forms of power in addition to the ones deriving strictly from the production sphere. In this regard, Gramsci’s (1978) work highlights how the civil society8 is the sphere where ideas and beliefs are shaped, which reproduce and legitimize the hegemony of classes through the cultural life, media, universities and institutions (Buttigieg, 1995). According to this view, the hegemony of the bourgeois was not explained solely through direct coercion, but by concessions to different classes in order to shape their interests and naturalize the domination of a specific class. An aspect of this perspective is that the dominated does not oppose against this specific structure of asymmetric relations because his interests are interpret as convergent with the one’s of the dominating class.

7. The term financial centralization refers to the greater importance of financial assets in one’s balance sheet, while financial concentration refers to the growing expansion of markets and their greater deepness and broadeness (Guttmann, 2016).

8. The concept of civil society in Gramsci’s work is highly elastic and isn’t summed up in a single writing. Overall, it relates to the space where the social order is built through political battles between different groups seeking collective aims. For a more complement assessment of the topic, see Buttigieg (1995).
This perspective is particularly useful to understand the rise of the financial sector. The mechanisms and processes that gave finance power over the economy, the society and the state had to be legitimized at the same time its contradictions were hidden so that the interests of the expansion of the financial realm would seem to benefit all classes in society. In this regard, the fact that the efficient market hypothesis spread the view of the market as a conflict-free institution, constituted of rational agents, capable of bringing prosperity and growth without seriously considering its inner contradictions and flaws is a clear example of how power manifests itself in subtle ways.

Leaving the neoclassical framework is fundamental to explore the issues of power in finance. In this regard, Dymski’s (2011) assessment of the issue provides challenging insights. The author begins by pointing four analytical elements that are missing from the standard efficient-market theory, which ultimately renders it incapable of grasping the complexity of the financial interactions of contemporary finance. According to him, the lack of a systemic approach is in itself one of the main flaws, together with the lack of acknowledgement of the role of power in finance, of the uncertainty generated by increasing information problems and, lastly, of the agents reactions to uncertainty, which leads to behavior that deviates from the “rational agent” framework proposed by the theory (Ibid., p. 593-594).

The author then focuses on the aspect of power in finance. He starts by making an analytical split between the loci and the forms of power that arise in finance. In regard to the former, he categorizes three main loci of power: time consuming, transactional and structural. The first relates to relations that involve a longer interaction, such as a borrower-creditor relationship. The second refers to power in the moment of a transaction, involving the moment of exchange, while the third refers situations where “agents interactions, whether transactional or time-using, are forced or predetermined by a set of determining parameters” (Ibid., p. 595). He then defines four forms of power: exit power,9 power deriving from the asymmetry of information,10 power from the position of an agent within a network of financial interactions11 and, lastly, power deriving from asymmetric resilience in face of shocks.12 All these different aspects of power interact mutually

9. “This arises when one agent in a relationship (a credit contract, for example) can leave it without damaging one’s net revenue streams, but the other agent in the relationship will indeed suffer an expected loss from such a break” (Dymski, 2011, p. 595).
10. “A second form of power arises when one agent in a transaction has private knowledge relevant to the terms and conditions of that transaction, but the other agent does not” (Dymski, 2011, p. 595).
11. “A third form of power arises when one agent in a relationship is more – or more powerfully – networked or interconnected with external partners or activities that are economically valuable” (Dymski, 2011, p. 595).
12. “There is asymmetric resilience, which arises when one agent in a relationship has a greater ability to suffer losses or to renew resources” (Dymski, 2011, p. 595).
and change over time, explaining the dominance of the “originate to distribute mode”\textsuperscript{13} and the concentration of power in universal banks.

Now the goal is to go beyond the domestic dimensions of the power of finance and explore its international dimension, hence a new set of analytical perspectives must be considered. Firstly, it is necessary to mention the goal to separate the domestic and international dimensions of financial power as a category of analysis isn’t simple. Yet, the goal is to understand how the process of financialization empowered sovereign states, influenced their position in the international financial hierarchy, allowed them to extract resources from the rest of the globe and receive substantial revenues from financial dealing.

In this regard, the concepts of financial power developed by scholars of the field of International Political Economy (IPE) are presented to illustrate another dimension of financial power that focuses on the role of currencies and financial power from the perspective of State.

It’s possible to identify three forms of financial power in IPE literature. The first one is \textit{Structural Power},\textsuperscript{14} which is the “power to shape frameworks within which [actors] relate to each other” (Strange, 1986, p. 24-25). In other words, establishing the range of choices open to actors and shaping incentives and payoffs without having to engage in proper coercion, thus influencing them in an unnoticed way.\textsuperscript{15} The second is \textit{relational power}, where power is exercised directly in order to influence the behaviour of other actors usually relying on instruments of coercion. Third is \textit{institutional power}, which is the power to shape preferences and policies at International Financial Organizations (Heep, 2014; Cohen, 2016; Strange, 1998).

In terms of how these types of power are enforced, Cohen (2006) states that structural financial power can be seen both in the capacity to exert influence to structures of the international financial system (\textit{i.e.}, shaping the international regulatory regime and imposing macroeconomic preferences on the system), but also as the capacity to resist to external pressures, such as delaying or deflecting the adjustment in the balance of payments imbalances. This insight is valuable because it allows understanding power not only as the capacity to influence others (power as influence), but also as the ability to not be influenced by others (power as autonomy).

\textsuperscript{13} To a broad discussion of the originate to distribute model, see Bord and Santos (2012). In the next pages this concept will be discussed in more length.

\textsuperscript{14} Differently from the Marxist tradition that understands structural power deriving mainly from the sphere of production, Strange’s (1998, p. 26) concept has four dimensions: “control over security, control over production, control over credit, control over knowledge, beliefs and ideas”.

\textsuperscript{15} Strange’s (1998) concept of structural power can be interpreted in the sense that an actor can shape the preferences of other not necessarily through coercive means, but simply by changing the rules of the game.
These categories of financial power are strongly related the configuration of international financial and monetary regimes. One of the main attributes of financial and monetary regimes is that they are organized in a hierarchical manner as a network of monetary relationships, constituted by a set of actors that have ties to one another and occupy different positions within a network of mutual interdependencies. The more central a position of an actor in the network or, in other words, the more connected it is to different actors, the bigger its authoritative domain and impact in the network of interdependencies (Cohen, 2006). In this regard, the United States has the broadest, deepest and most diversified financial system in the world, which gives the country and its currency the a significant authoritative domain over financial and monetary relationships with other countries and, more diffusely, over the aggregate of relationships that form the international regime. Therefore, the hypothesis defended in this research is that as the financial sector inside the U.S. gains more power, the authoritative domain over other countries by the U.S. spreads due to the fact that its financial system increases its centrality in the global network of financial relations.

The theoretical perspectives presented converge in a central question: the market is seen not as an instance that is conciliatory, constituted of rational actors and that tends to equilibrium, but a place where actors constantly struggle to obtain more power and control over other actors and institutions. We argue that one additional category of power must be considered with greater attention in order to understand the power of finance within the U.S. and how that translates to power of the U.S. in the international arena: the evasion of existing financial regulation by banks and other financial institutions, which allowed the latter to expand their activities and enjoy greater freedom to pursue new forms of profits since the crisis of the 1970s through the creation of financial innovations.

One example is the change from the traditional banking activities of taking deposits and making loans to “originate-and-distribute” lending model, which changed the whole modus operandi of the financial system and rendered banks capable of creating networks of financial interdependencies in which they enjoyed a rather comfortable role. Universal banks integrated commercial banking, investment banking, insurance and asset management under the same roof, which allowed them to pursue greater profits in forms of fees, commissions

16. The latter are characterized by the acceptance of both private and public actors in the global economy of a national currency that fulfills the role of unit of account, store of value and medium of exchange in the international sphere (Cohen, 1998). In addition to these features, monetary regimes establish the institutional mechanisms that regulate monetary transactions, namely dictating how exchange rates are managed, how payment systems will work and payment obligations settled. Monetary regimes thus facilitate the exchange and circulation of national currencies, allows countries to adjust the balance of payments in face of external imbalances and guarantees international liquidity that fuels trade and financial flows.
and arbitrage profits that increased their already sumptuous income in the form of interest, dividends and capital gains (Guttmann, 2016). As pointed by Dymski (2011), by changing their business models, banks started to experience network power given their position within the net of financial relations, but also informational and positional power given the asymmetric interdependencies embedded in this new architecture of the financial realm.

In order to pursue such strategies, the financial sector had to challenge the existing regulatory framework. Regulation in the financial realm has traditionally been stricter when compared to other sectors given the important role financial institutions perform in terms of credit allocation and money creation. As an example, in the U.S., whether it is in terms of spending or number of employees, financial regulation represents more than a third of all business and industry related regulation (Bond and Glode, 2014). From the perspective of financial institutions, regulations are a sort of straitjacket that imposes a barrier to expansion and higher profit margins, hence regulation efforts have been constantly challenged by financial innovations that render them ineffective. This is a process that can be named regulation dialectic, in which banks and financial institutions try to surpass existing regulations. Once they are successful, they overextend their newly acquired freedom and trigger a financial crisis, which then leads to new regulation efforts in a process that repeats itself throughout history (Guttmann, 2016).

This strategic avoidance of regulation and the regulation dialectics are connected to the process of financial instability described by Minsky (1992). The occurrence of credit bubbles and the overextension of financial bets that precede financial crises are often related to regulatory breaches that enable financial institutions to pursue greater profits. Fuelled by optimism and euphoria, financial actors take riskier positions, which they manage to hide or pretend they’re safe given their influence and power regarding regulatory agencies. Eventually the fragilities of such practices become unsustainable, which render debtors increasingly vulnerable to any rupture of income generation. Once the later suffers a hit, the optimism that fuelled the boom turns into panic and both creditors and debtors pull back and the burst of bubble becomes inevitable. Following, regulators try to access the missing elements of regulatory framework that allowed such episode of financial instability and reregulation efforts begin (Guttmann, 2016).

In this context, the regulatory dilemma of domestic regulators, that is, “the trade-off between maintaining competitiveness [of the domestic financial system] on the one hand and preserving the confidence of consumers and the stability of the financial system on the other hand” (Gundbert, 2014, p. 37-38) has been distorted in favor of the preferences of financial institutions over the
last decades. The removing of regulations like Glass-Steagall’s Act of 1933 through the implementation of European Union’s Second Banking Directive in 1989 and the Gramm-Bliiley-Leach Financial Services Modernization Act of 1999 in the U.S. are a proof of the power to shape regulations of such institutions. As will be shown, even the reregulation efforts after 2007-2008 such as Dodd-Frank\textsuperscript{17}, the European Commission’s directives\textsuperscript{18}, and Basel III\textsuperscript{19} have been obstructed by the interests of the banking sector.

When analyzing this phenomenon, a form of financial power emerges that stills lacks further theorization: the power of not being subject to regulatory constraints. This form of power is particularly important to financial institutions because it represents not only the power to influence the structural determinants that will dictate future profits, but also the capability of individual financial institutions to avoid having its actions influenced by the other agencies and actors. This definition relates to the crucial concept created by Cohen (2010) that differentiates “power as influence”, which means imposing your preferences on others, and “power as autonomy”, which relates to be able to not be influenced by the preferences of others. Shaping and avoiding regulation fits both types of power and seems to be of strategic importance for the success of financial institutions.

In terms of power as influence, the increasing power of professional lobbies and committees over the regulatory process, the revolving door of populating regulatory agencies with former bankers, job offers at the private sector after leaving the government, among others channels allows private financial institutions to systematically influence regulators. However, as pointed in the theoretical part of this paper, power can be enforced in an indirect way, which, according to Lukes (1974) can happen through the shaping of preferences, wants and thoughts. In the context discussed here, it can be argued that the theoretical underpinnings that guided the entire financial system and its regulators have been based in the efficient market hypothesis framework in order to grant the financial sector the autonomy needed to pursue higher profitability without proper consideration for the risks involved.

This has led to what authors such as Gundbert (2014, p. 100) call the “intellectual capture” of personal that populate finance ministries, central banks

\textsuperscript{17}. Implemented in 2010, The Dodd-Frank Wall Street Reform and Consumer Protection Act establishes several new regulation standards. For more details, see Senate Bill 4173 (2010). Available at: <https://www.govinfo.gov/content/pkg/PLAW-111publ203/html/PLAW-111publ203.htm>.

\textsuperscript{18}. These refer to several measures implemented by the UE, including Capital Requirement Directive IV, Recovery and Resolution Directive (RRD), European Market Infrastructure Regulation, Alternative Investment Manager Directive, coupled with implementation of the European Banking Union, which provides for a uniform supervisory mechanism, a common deposit insurance scheme, and a resolution fund (Guttmann, 2016).

\textsuperscript{19}. Implemented in the end of 2010, the new Basel accord strengths the capital requirement framework and imposes stricter regulations of liquidity and leverage caps. Notably, it imposes harsher regulations on “global systemically important banks”. For more details, see BIS (2017).
and specialized agencies of financial supervision. Such capture is not given by shaping the preferences of regulators solely through material incentives, but by simply sharing the same beliefs that the markets which in practice hides the many contradictions and interests embedded in the way finance operates. This intellectual capture has distorted the possible solutions for the acute problems related to global financial practices.

While such intellectual categories demonstrate that power operates in subtle ways, the hypothesis drawn here is that a key dimension of financial power is the evasion of regulation through a concerted political strategy by financial institutions. The financial sector has engaged actively in shaping the regulations that affect their profitability since the outbreak of the subprime crisis and through a series of different strategies they've managed to gain autonomy from official bodies. In this regard, two recent examples demonstrate how the power to modify and evade regulation shapes the four categories of power purposed by Dymski (2011) and the structural power of financial markets over society as a whole. These are the example of the European Financial Transaction Tax (FTT) and of the efforts from the financial sector of the U.S. to alter the main characteristics of the Dodd-Frank under Donald Trump's presidency. The next section aims to illustrate how it is possible to utilize the concepts of financial power to understand the recent move from the financial sector to liberate itself from the straitjacket of regulation.

3 HOW POWER MATERIALIZES: THE EVASION OF REGULATIONS

The FTT was purposed as a directive from the European Commission in 2013 to tax financial transactions. It aimed implement a 0.1 per cent tax on transactions of stocks and bonds and 0.01 per cent on derivatives, which would raise approximately € 34 billion in revenue, significantly contributing to European countries that were facing fiscal problems at that period and also dis-incentivizing short term speculative behaviour in financial markets. Additionally, the proposal enjoyed ample public support, with approval rates for it that were around 80-70 per cent in countries such as France, Germany, Italy and Spain (Kalaitzake, 2017). Overall, there was a political momentum for the implementation of the tax due to the public’s general frustration towards the financial sector after the 2007-2008 subprime crisis, together with support from the European Commission, the

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20. For example, increasing transparency is always high on the reform agenda given that markets are seen as ultimately efficient. In the last Financial Stability Report of the IMF (2016), the word transparency appears 47 times. However, as pointed by Blyth (2003, p. 246), “conflicting demands may not be reconcilable by simply proving more information”. The author argues that “increasing information may serve to lower clarity if understanding is imperfect, while honesty may become a problem if understanding is not common between the sender and the receiver” (ibid., p. 246). Ultimately, increasing transparency cannot offer no panacea for increasing financial stability because it does not significantly take into account the underlining power structures involved in the regulation of the financial system. Consequently, even if increased transparency may diminish the asymmetry of information among different agents, they’re still embedded in a profoundly asymmetrical system in which they enjoy different sources of power (Dymski, 2011).
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European Parliament, civil society organizations and political parties within the participating countries.

Despite the initial support for the FTT, financial industry associations utilized a series of strategies to impede its implementation. According to Kalaitzake (2017), the financial sector followed two strategies that effectively led the directive to fall into a “political limbo”: the first one was to garner political support from non-financial companies and central bankers, while the second was to explore what the author calls the structural dependency arguments to pressure policy markers into changing their views on the matter.

The first strategy was centered on proving a series of consultation submissions, impact assessments and industry studies to provide the policy markers with evidence that the FTT would hurt the financial sector and the real economy. Despite the obvious conflict of interest, many consulting firms drafted “independent” reports that argued that the directive would hurt consumers given the tax would be passed to them, the borrowing costs for government and companies would increase, the liquidity of the market would decrease and the tax would not be effective to decrease market volatility (Kalaitzake, 2017).

This strategy managed to get ample support from business lobbies of non-financial companies, which demonstrates the network power of the financial sector over the entire economy. As broadly accepted by the literature on financialization (i.e., Stockhammer, 2004; Orhangazi, 2008), one of the key characteristics of non-financial companies in the current regime of accumulation is that they rely heavily on the financial sector for risk management practices, short-term derivatives transactions, bond issuances, among many other financial services that are at the core of the business practices of large non-financial companies. Consequently, they tend to have very similar interests as those of the financial sector, which is constantly explored by the latter as a way to convince policy markers that any financial regulation will hurt the “real” economy and will put a drag on economic growth. In addition to the support of non-financial companies, central bankers came forward and public supported the claims of the financial sector, arguing that the FTT would hurt both the real sector of the economy and even the liquidity of repo markets, which would be detrimental to central banks (Kalaitzake, 2017).

This first strategy relates to the second, which is to explore what Kalaitzake (2017) calls the “structural dependency” arguments. According to the author, the financial sector focused its efforts in arguing that the FTT would not only hurt the overall economy, but also promote an outflow of capital from Europe and, most importantly, a reallocation of the financial sector to other countries that were more business-friendly. Given the context of the European debt-crisis
and sluggish economic growth when the FTT was first purposed, in 2013, such arguments had a powerful normative content due to the fact that financialization was seen as not only desirable, but also fundamental to the recovery of a country’s economy in spite of the fact that it was on the root of the crisis itself.

Such arguments gained lively support after the United Kingdom announced its decision to leave the European Union, which sparked the wish of continental Europe to attract financial business from London. Many of the participating countries of the negotiations interpreted the implementation of a financial tax as a barrier to attract the money and jobs of the financial sector to their respective countries, further weakening the support for the FTT with domestic stakeholders. While the first self-imposed deadline for the implementation of the FTT was January 2014, by September 2017 the directive was still not implemented and expectations are that, if negotiations advance, it will be implemented with a series of exceptions and in a watered-down version of the original (Kalaitzak, 2017).

From the example of the FTT, it is possible to notice two forms of power that are crucial to understand how the financial sector operates and imposes its preferences on policy makers: its network power and the capacity to capture intellectually personal from public bodies, namely central bankers. In terms of the network power, it is noticeable how the financial sector managed to get non-financial companies to put strong pressure on policy makers. As the “productive” sector of the economy had engaged in the battle to stop the implementation of the FTT, the political strength of the financial sector improved significantly. In terms of the intellectual capture of personal, the opposition of the central bankers against the FTT gave the veil of legitimacy to the financial sector arguments that was needed to challenge the directive given central banker’s supposed independence and technicality.

Another ongoing example of how finance manifests its power is on the fight to change and/or extinguish the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed by president Barack Obama in the aftermath of the subprime crisis, which significantly changed the regulatory framework for the financial sector. Among the many changes that the new regulations enacted, namely regarding liquidity provisions, stress tests, the so-called

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21. “Liquidity provisions mandate that banks hold ready cash or liquid securities available to pay unexpected bills, as the failure to meet such demands can trigger bank failure” (AFR, 2017, p. 7).
22. “Stress tests are a process by which regulators attempt to ensure that banks have adequate resources to remain solvent through an economic downturn, by predicting bank losses under economic stress. Regulators currently require large banks to conduct annual stress tests and to reserve additional capital (in excess of minimum levels) if they fail the test” (AFR, 2017, p. 7).
“livings wills”,\textsuperscript{23} one in specific has been disputed by the financial sector: the \textit{Volcker} rule, which forbids banks and other depositary institutions to utilize deposits to trade on their own account or, in other words, to stop them from doing "proprietary trading".\textsuperscript{24} The idea behind the rule is that banks and other institutions can still trade to make markets for clients, but they cannot trade and speculate on their own funds, thus creating challenges for banks to take overly risky positions.

Since the signing of the new regulations, bankers have been vociferous in their opposition against it. According to Jopson (2017, p. 2), many insiders see the rule as a “noose tailored for the bank’s throat”. They argue that “the rule is so complicated it has undermined banks’ ability to provide liquidity to the market, making it more difficult and costly for market participants like pension funds to earn a return on their investments’ (Gorman, 2017, p. 2). From an objective perspective, the main impact on the regulation does not seem to be on the liquidity of the market, but rather on the profitability of banks. Goldman Sachs, for example, known for being reliant on trading securities as one of its major source of earnings, saw a major loss in profits since the new regulations were imposed. In 2007 the bank’s net trading revenue from bonds, currencies and commodities reached US$ 16.2 billion an year, however, in 2016, such revenue was reduced to US$ 7.6 billion dollars (Jopson, 2017, p. 2). Additionally, according to estimates, Goldman Sachs would lose US$ 3.7 billion in annual revenue only due to the implementation of the Volcker Rule (LaCapra, 2011).

In face of such a drastic decrease of their profitability, banks and other financial institutions have reacted swiftly to the implementation of the Volcker Rule, gaining significant space with the election of Donald Trump to the presidency of the United States. Despite the claims during Trump’s campaign that he would “drain the swamp” and battle the influence of Wall Street in Washington D.C., his government was seen by the financial sector as a opening to modify and weaken the existing legislation due to the president’s declared intentions to do “a very major hair cut on Dodd-Frank” (Moore, 2017). Two facts are indicative of how this campaign promise is now materializing: the first is the publishing of the report \textit{A Financial System That Creates Economic Opportunities}, by the Treasury

\textsuperscript{23} “Living will requirements oblige large banks to annually submit a plan for how they will resolve themselves in a conventional bankruptcy, without creating significant economic disruption. The living will process requires banks to plan for having cash (liquidity) available to maintain crucial operations while going through bankruptcy” (AFR, 2017, p. 7).

\textsuperscript{24} Proprietary trading can be defined as “engaging as a principal for the trading account of a banking organization or supervised nonbank financial company in any transaction to purchase or sell, or otherwise acquire or dispose of 1. Any security; 2. Any derivative; 3. Any contract of sale of a commodity for future delivery; 4. any option on any such security, derivative, or contract; 5. Any other security or financial instrument that the appropriate deferral banking agencies, the SEC, and the CFTC (the ‘Regulators’) may determine by rule”. See more details at: <https://www.govinfo.gov/content/pkg/PLAW-111publ203/html/PLAW-111publ203.htm>. 
Department, and the second one is the sheer number of former financial market employees populating regulatory agencies.

In the beginning of February 2016, Donald Trump signed an executive order in which he asked for the Treasury Department to write a report that indicated financial regulations that could be eliminated. The report *A Financial System That Creates Economic Opportunities* by the Treasury Department under the leadership of Steven Mnuchin, Trump’s Secretary of Treasury and ex-Goldman Sachs employee, is one of the major fronts where the financial sector has externalized its preferences in terms of regulatory changes. In the document, the authors argue that Dodd-Frank creates barriers to the concession of credit, it limits the liquidity of the markets and it passes extra costs to consumers and investors, which ultimately hinders the growth of the economy and the creation of jobs. According to the report,

nearly seven years following Dodd-Frank’s enactment, it is important to reexamine these rules, both individually and in concert, guided by free-market principles and with an eye towards maximizing economic growth consistent with taxpayer protection. Doing so will help to unleash the potential of consumers and businesses, which has been restrained in one of the weakest economic recoveries in U.S. economic history. Immediate changes, at both the regulatory and legislative level, are needed both to increase economic growth and financial stability (Mnuchin and Phillips, 2017, p. 8).

Not surprisingly, most of the recommendations of the report go against many of the principles set by Dodd-Frank. Namely, the report advocates for raising the threshold of assets that qualifies an financial institution for being subject to the annual stress-tests, for changing the frequency of the stress tests from an annual basis to a two-year cycle, for relaxing prudential requirements for capital and liquidity provisions and improving inter-agency cooperation to reduce overlapping of regulation. In terms of the Volcker Rule, the report does not recommend its repeal, but it does suggest significant changes such as excepting banks that have assets smaller than US$10 billion from being subject to the rule, establishing a threshold for trading assets and liabilities which are permitted in banks that have assets larger than US$10 billion and changing the supervision standards to impose less burdens on small and medium sized banks (OCC, 2017).

Whilst most of these changes are technical in nature, they reflect the increasing power of banks over one the Treasury and over the overall regulatory framework of the U.S. Americans for Financial Reform (AFR, 2017) published a report where they compare the recommendations of the Treasury to the recommendations of a report by the Clearing House, an association with strong influence of financial institutions. They point that the Treasury Department follows deregulation in 17 out of the 20 suggestions by the Clearing House. Additionally, it “fully or partially follows the Clearing House recommendation in thirty-one out of forty
specific cases” (AFR, 2017, p. 2). Another important aspect that AFR (2017) raises is that most of the changes recommended in the Treasury report do not call for a statutory change in Dodd-Frank, which would be difficult to pass in congress, but can be implemented independently by regulatory agencies. For example, among the 31 recommendations of the Treasury Report, 29 could be accomplished without having to go to Congress.

The fact that deregulation efforts have been centered in changing rules that do not require congressional approval is connected to the second strategy pursued by the financial sector: populating important regulatory agencies since the election of Donald J. Trump. Despite the rhetoric of the latter against the financial sector in his election campaign, his administration is marked by the presence of individuals that worked in Wall Street occupying top positions: Steve Bannon, former chief strategist of Trump, was also former vice president of Goldman Sachs. Steven Mnuchin, now Treasury Secretary, spent 17 years at Goldman Sachs. Joseph Otting, former president of OneWest Bank, is Comptroller of Currency.25 Gary Cohn, which was a Goldman Sachs employee for 26 years, is now the National Economic Council director. Jay Clayton, director of the Securities and Exchange Commission, is a corporate lawyer with strong connections to the financial sector. Anthony Scaramucci, who was briefly Trump’s White House communications director, was a former Goldman Sachs vice-director and owner of an investment company (Rivlin and Hudson, 2017).

The presence of many top officers from the financial sector indicates that the strategy of the financial sector has been centered in changing regulations from within the regulatory apparatus. After the subprime crisis it became politically challenging to get political support in Congress for subjects related to the easing of regulations for the financial sector. Only almost 10 years after the crisis, in June 2017, the bill “Financial Choice Act” was introduced to the congress by Congressman Jeb Hensarling, which envisions changing Dodd-Frank in many of its main points. Despite having been approved in the House, expectations are that it won’t pass in its current form in Senate (Rappeport, 2017). Conversely, populating regulatory agencies with former employees from the financial sector does not require broad political support given most of the changes in the regulatory framework can be made by implementing different interpretations of

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25. In effect, in the time of writing, Otting was still waiting to receive a vote by the Senate to officially start acting as Comptroller. Keith Noreika, former corporate lawyer for clients such as Wells Fargo and JP Morgan Chase, is acting as temporary head of the OCC. However, Noreika’s position within the administration is particular. He was nominated as a “first deputy comptroller”, a non-confirmable position, which was intended as being temporary while the administration found another name to officially fulfill the spot. It is important to notice that Federal ethics laws forbid former federal employees of lobbying the agency for five years, so in order to avoid such prohibition Noreika was appointed as a “special government employee”, which implies that he would only be able to work for a cycle of 130 days. On September 12 the deadline was reached and Noreika was still at the position, which implies that his current position was illegal under federal law (Dayen, 2017).
Dodd-Frank, changing internal practices and altering the overall guidance and implementation of rules (Lopez and Saeidinezhad, 2017).

For example, the Office of the Comptroller of the Currency (OCC), an independent bureau of the U.S. Treasury responsible for regulating and supervising banks and savings institutions, issued a public notice in August 2017 seeking public input on changes in the Volcker Rule (OCC, 2017). The federal agency under the temporary leadership of Keith Noreika, justified the intention to review the Volcker Rule by arguing that

many have argued that the final rule is overly complex and vague. Banking entities in particular have suggested that, despite their best efforts, they sometimes are not able to distinguish permissible from prohibited activities. Banking entities also have suggested that the Volcker Rule is overbroad and restricts a number of essential financial functions, potentially restricting activities that could spur economic growth. In particular, firms have suggested that they have been forced to curtail economically useful market-making, hedging, and asset-liability management to avoid violating the proprietary trading prohibition (OCC, 2017, p. 7).

Not only the language and arguments utilized by the OCC notice are similar to those of the Treasury Report, but also it starts a process of consultations and revisions in order to effectively modify the existing regulatory framework. Such example is an indication that the wheels of regulatory change are already turning and that changes that do not require statutory modification are bound to be plenty under Trump’s administration.

However, it is relevant to notice that concrete changes in the regulatory apparatus are still in their early phases and it is soon to speculate how the U.S. regulatory framework will respond, but the evidences considered in this research indicate that the regulatory pendulum is swinging in favor of private financial interests, increasing their both finance’s power-as-autonomy and power-as-influence. Additionally, the financial sector is seeking de-regulation precisely in those areas that were sources of fragility in 2008 and that spread systemic risk: excessive leverage, risky credit expansion, inadequate capital buffers, concentration in “universal banks” and the rhetoric on “self-surveillance” of the financial sector are all risks that can emerge once again in face of the increasing power of financial institutions.

The political stalemate of FTT and the pressures against Dodd-Frank suggest that shifts in regulations are not restricted to Europe and the U.S., but they can also have an impact in the multilateral level. In this regard, it is possible to draft a parallel with the global financial cycle, which refers to the impact of the U.S. monetary policy on asset prices and capital flows around the globe given the centrality of the

26. See footnote 22.
dollar for trading, funding and investment purposes (Rey, 2015; Hyun-Song, 2016). The centrality of the U.S. in the network of financial relations that constitute the global financial system has another consequence both to developed and developing countries: changes in the U.S. regulatory apparatus influence regulatory practices throughout the world, creating a global regulatory cycle that relies on changes in the political economy of financial regulation within the U.S. Therefore, it is possible to assume that the domestic changes in the regulatory framework in the U.S. and in Europe will not only delay the implementation of key aspects of Basel III that still haven’t been implemented, but also that the current deregulatory pressures will promote revisions in many of the aspects of the multilateral regulatory framework that are harmful for financial interests.

Finally, as the financial sector increases its structural power over the economy, understanding how financial power operates and what are its sources is fundamental to create policy responses that can effectively promote a financial system that is socially useful. Both the examples of the FTT and of the pressures on Dodd-Frank provide evidence of how finance utilized its network, structural and ideological power to shape regulation in its favor, indicating that the framework of rules achieved both at the national and multilateral level in the post-2008 crisis are being challenged by the financial sector. In this regard, evidences point to the fact that the hierarchical and asymmetrical configurations of the current international monetary and financial regimes should be reinforced as financial power once again gains strength within the U.S., further increasing the centrality of the country in the network of financial relations that connects the globe.

4 FINAL REMARKS

Despite the importance of the issue of power for economics and International Relations, few scholars in the both fields have adventured in topic of financial power and how it is exercised in the current accumulation regime. This research has tried to contribute to the existing literature on the subject by utilizing insights from different perspectives and purposing a new category to understanding financial power: the power to avoid or shape the regulatory framework, that is, finance’s power-as-autonomy. We argued that power in the financial realm in not only exercised through material assets, but also from the subjective strength of neoclassical ideas such as the Efficient Market-Hypothesis allied with the network power of financial institutions that derives from the dependency of non-financial companies of financial services.

Overall, these forms of power constitute what both Dymski (2011) and Strange (1998) call structural power, which is manifested in the way finance manages to both influence and define the framework in which other actors
will interact. Understanding what are the sources of such power and how it is manifested in a “financialized” world is fundamental not only to avoid a crisis in the same magnitude of the *subprime* crisis, but also to rethink how society can respond to the increasing undemocratic nature of financial regulation. In this regard, bringing back politics to think about how financial regulation is shaped and implemented is necessary in order to remove the veil of supposed technicality involved in the way financial markets operate.

Lastly, evidence in this research pointed to the fact that we are currently in a period in which the pendulum of regulation is swinging in favor of financial interests. Even if it is soon to speculate what the concrete consequences in terms of regulatory changes will take place, it is possible to argue that the strengthening of finance has visible impacts in the multilateral sphere and in the way monetary and financial authority is exercised in the international level. Therefore, both an opportunity and a challenge is opened to developing and emerging countries: at the same time pressure increases to follow the same deregulatory policies that the U.S. and Europe are implementing, there’s a window of opportunity for a new round of multilateral efforts to rethink the way the international monetary and financial system is organized.

This last point is especially important because the world economy is finally showing signs of strong growth, but, as Minsky (1992) reminds us, stability breeds instability. While most regulators start to forget what a crisis looks like, the same underlying unbalances that have fuelled crisis in the past are accumulating, so the issue is no longer if there will be a next crisis, but when. A potential correction of overvalued stock markets, a default of over-indebted companies, a potential nuclear threat: they are factors, among many others, that can be the trigger of the next financial crisis. In this regard, with the current dissatisfaction with globalization in different parts of the globe shows and tensions accumulating, a financial crisis could devastating effects both for developed and developing countries. In order to avoid such outcome, we need to start rethinking the power of finance, and it must be soon.

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