Networks Matter: Explaining How States Have Responded to the Global Financial Crisis

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The global financial crisis from 2007-2009 has generated countless conferences and studies, books, both from popular and academic presses, articles, and is shaping current and future research agenda. Financial services sector crisis are not new (Reinhart and Rogoff, 2009). Crises tend to follow similar patterns. Of interest, the response of states and jurisdictions to this most recent crisis differed. The objective of this paper is to consider this variance.

The analysis compares Canadian, American and European financial services sector policy reform in response to the global financial crisis. The Canadian financial services sector came out of the crisis, by design or hazard, largely unscathed. As such, Canada only adjusted policy at the margin, but did not review its larger policy framework. The United States, for its part, adopted a broad legislative package making important modifications to supervisory and regulatory structures, as well as to policy. The extent to which the Dodd-Frank Act will achieve its objectives remains to be seen. The EU is in the midst of implementing an important supervisory and regulatory infrastructure reform to better coordinate policies across member states, to ensure cohesion in case of a future crisis, and to facilitate further integration. The crisis was global in scope, but it affected states and jurisdictions differently. As such policy reactions differed, ranging from self-congratulations (Canada), to inflamed rhetoric (US), to more serious reflection mired in tension (Europe).

How have states responded to the global financial crisis, and how are variations to be explained? There are many considerations that affect financial services sector policymaking, from global pressures to domestic imperatives. Policy parameters and institutional arrangements shape possibilities for reform. The paper uses a policy network approach to discuss financial services sector policymaking. The approach provides an avenue to consider actors, resources and interests in the policy process. The purported argument is that network types matter, and that different networks will respond dissimilarly to external pressures. Financial services sector policy networks in Canada, the US and the EU are distinct, which explains why policy reforms varied across case studies.

The first part of the paper considers the policy network approach and how it applies to the financial services sector. The second section of the paper focuses on the three case studies. The paper is based on available public documents, and the literature in this area of research as it currently stands.

The Role of Policy Networks in Financial Services Sector Policy

The roots, causes and effects of the global financial crisis are still debated. Howard Davies (2010), former chair of the British Financial Services Authority, provides a complete summary of key issues. What is clear is that the crisis is as much a political one, as it is economics (Friedman, 2009). The paper is less concerned with discussing the crisis itself, than in ways in which states and jurisdictions have responded to this public policy challenge. It is, thus, relevant to consider how financial services sector policy is made, including the different actors and considerations that go into the policymaking process.

Policy networks provide a well-established way by which to understand policymaking, and the approach is applicable across policy fields including in finance. A network can be defined as,

> ... a set of informal and formal interactions between a variety of usually collective public (state) and private actors, who have different, but interdependent interests. Operating in a more or less institutionalized setting, these actors are engaged in horizontal, relatively non-hierarchical discussions and negotiations to define policy alternatives, or formulate policies, or implement them (Coleman, 2002).

Despite many criticisms, including that a policy network is nothing more than a metaphor, the concept has demonstrated staying power. Policy networks allow the researchers to determine who is involved in policymaking, their role, and to speak to the type of interaction that exists among network participants. Networks are fluid and power struggles between actors help determine policy choices. Policy networks, therefore, are useful instruments when considering how and why states have responded differently to the global financial crisis.

There are various policy networks models. For the purpose of this paper, it appears best to use one of the recognized models in the field; Marsh and Rhodes (1992) present the British variant of policy network studies. The approach remains relevant today (Somerville and Goodman, 2010) and has been used in various ways, including to conduct cross-national comparison in the EU (Adshead, 2002). Speaking to different types of policy networks, Marsh and Rhodes refer to a continuum where there are tightly knit policy communities on the one extreme and loosely-affiliated issue networks on the other. The type of policy network influences decision-making and policy choices. Actors in tightly knit communities are more likely, even when they disagree, to have built a confidence-based relationship. There is likely to be a mechanism by which to attend to actors' differences. Decision-making is likely to be more consensual in policy communities, and though differences may exist there exists real possibilities for coordination. Actors are bound to be more reasonable because they must continually work with one another. Policy choices, in turn, are expected to reflect the interest of the community, with outsiders' views to be discarded. As discussed later in this section, Canada's policy network in the financial services sector, though it does not fit the typology perfectly, can be considered a policy community.

The situation differs when considering issue-based networks. Such networks are likely to be populated by adversarial coalitions (Sabatier and Jenkins-Smith, 1993). Loosely affiliated networks have a large diffused membership. Actors have varied preferences, reflecting their interests and resources. Policymaking is, thus, political, open and contentious. Decision-making is likely to be hierarchical, and the weight of actors in the process will vary. Policy decisions can reflect a broad compromise, or they can echo the interests and preferences of certain actors. The United States' policy network in finance resembles an issue-based network.

There are nuances to be taken into account, as is usually the case when dealing with typologies. There are financial services sector policy networks specificities that should, at the very least, be mentioned. First and foremost, finance policy involves a fusion of public, private and technical authority (Porter, 2003). Finance is inherently complex, and the role of experts in policymaking needs to be stressed. The complex nature of the business raises serious concerns about government supervision and regulation of finance industries, and how best to ensure that the public good is served. Financial services sector policy is one field where there is a real possibility of regulatory capture (Etzioni, 2009). The role of consumers in policymaking is, thus, also generally more limited (for the EU, see McKeen-Edwards and Roberge, 2007). Policy networks in financial services sector policymaking tend to be dominated by key government departments and officials, and market actors and experts.

There are other elements of financial services sector policy networks that need to be mentioned. The world of finance, like that of politics, is very much a club where certain behaviour is encouraged, and other types of behaviour frowned upon (for an example of the culture in the 1980s, see Lewis, 1989). Networks operate both at a formal an informal level. Understanding the relationship between regulators and market actors is essential to grasp how network operate. In Canada, the relationship between the Office of the Superintendent of Financial Institutions (OSFI), the federal supervisor and regulator, and market participants appears relatively constructive. There are clearly tensions in the United States between regulatory authorities and market participants. Firms are said to have cherry-picked the regulator of their choice leading up to the financial crisis, identifying the one that is most favourable to their situation (US Department of the Treasury, 2009). The relationship between EU institutions, national regulators and market actors is somewhat muddled, taking place across multiple levels of intervention.

There are still more factors to consider when looking at networks in the financial services sector. The actual composition of and across industries is clearly important. Behind the financial services sector etiquette, there is a plethora of firms, actors, practices and services, and there is variance across states and jurisdictions. Major business lines include, but are not restricted to, banking, investment services, trusts, insurance and reinsurance. Policy considerations differ across these industries, and will at times conflict. Finance should not be seen as a giant monolithic club. The Canadian marketplace is dominated by six large banks, which collectively own 90% of the country's total bank assets (Canada, Office of the Auditor General, 2010). The United States has thousands of firms of various sizes, regulated federally and at the state level. There are more than 7 500 Federal Deposit Insurance Corporation insured banks. Though there exists a supervisory and regulatory regime at the European level, there are still many markets across the continent. The European Commission itself recognizes that integration has mostly occurred in money markets and bond markets, though it needs to be noted that these areas have been severely hit by the crisis (EC Commission Staff Working Document, 2009). Market composition is both the reflection, and a factor that shapes the overall institutional arrangement within the state/jurisdiction.

Finally, it is important to remember that financial services sector policy networks are not stale, are fluid, and have changed over the years. Network fluidity may reflect new market opportunities, changes in the policy environment, new policies, and other considerations. For instance, there has been a politicization of finance over many years. Financial services sector policy traditionally revolved around finance departments, central banks and a few key market actors. Politics in this area was largely low-key. The globalization of finance, market de-segmentation, and a host of other factors have expanded policy networks, increasing the likelihood for friction. Roberge (2006) traces the evolution of the Canadian and French financial services sector policy networks. Government people, market actors and specialists continue to dominate these networks; finance, however, is so predominant in the modern-day economy that networks naturally evolved.

In this article it is suggested that policy variance can be explained by differences in network types, assuming networks are placed under similar pressures. The global financial crisis put comparable pressures on governments around the world, but policy responses differed. Policy communities benefit from restrained membership, good communication and trust among actors. Canada's policy community was well-positioned when the crisis hit. Canada fared well, with the community responding in unison. Pressure will impact issue networks differently, due to the large and diffused membership, with its varied resources and interests. Network response is bound to be more complicated and contentious. The American financial services sector policy network resembles an issue network. The membership is divided and there is little in the way of coordinating mechanism. Finding mediated grounds is challenging. The argument is not that policy communicates are better suited to deal with a crisis than issue networks. Each network type has its advantages and disadvantages. Policy communities could potentially ignore the greater good, as was the case in Ireland (Ross, 2009). Issue networks can favour a democratic and public debate. The distinction is important to explain variations in policy responses across states and jurisdictions; it is not a value statement.

The EU does not fit nicely in the discussion above. The financial services sector policy network is neither community or issue-based. Marsh and Rhodes (1992) distinguished some of the network arrangements in-between both ends of the continuum. Based on this conceptualization, the EU financial services sector network resembles a cross between an intergovernmental and a professional network. There is both vertical and horizontal interdependence in the network, as tends to be suggested through the multi-level governance literature (Hooghe and Marks, 2001), and network membership is fairly restrained. Explaining financial services sector policymaking in the EU requires that the relationship between different branches of supra-national institutions be understood, that the role of committees (now authorities) in the process be accounted for, and that the role of national governments whether at the supra-national or domestic level in terms of policymaking and implementation be described. Private sector actors, in turn, are involved across these different levels of activity. The EU was first taken aback by the crisis, and states largely responded individually. After this initial inertia, the European Commission quickly proposed substantive structural and regulatory reforms, which after some debate were adopted and are now being implemented. The sequence of events demonstrates the dynamics of an intergovernmental and professional network, faced with an anomalous situation.

The global financial crisis has been a substantial external shock for states around the world. States and jurisdictions responded differently to the crisis, how they have done so depends in many respects on the structure of their policy network in the financial services sector. To substantiate this argument, we now discuss in turn each of the three case studies.

Cross-Jurisdictional Responses to the Global Financial Crisis

The section considers how Canada, the US and the EU have responded to the global financial crisis. During the worst of the crisis, governments across jurisdictions spent large amounts of money to rescue financial firms. The section does not discuss specifics of crisis management across states, rather the focus is on the policy overhaul that was, or is still, to follow. As noted earlier, Canada avoided the worst of the financial crisis. The Canadian government did not need to come to the rescue of any of its major financial institutions. The policy response has been more muted, despite controversies of its own in what has become known as the asset-backed commercial paper crisis (for those interested see Chant, 2009). The US reform package represents a hard-won compromise of the Obama administration. The adopted policy reminds us of the old adage, that ‘politics is the art of the possible’. The European response to the crisis was initially state-led and disorganized. The EU is now working to revamp its supervisory and regulatory infrastructure so that EU member countries can better coordinate their responses when faced with new challenges. Due to limited space, the case studies are not presented in full details. The sketches drawn here demonstrate how governments’ responses to the global financial crisis differed based, in part, on each state or jurisdiction’s policy network in the field.

Canada

Canada is one of the Western countries, along with Australia, that emerged relatively unscathed from the global financial crisis. The important question from a Canadian perspective, therefore, is how it avoided the worst of the crisis. The Canadian situation was different from the onset of the market turmoil. There are reasons to believe that sound policy, along with relatively good bank management, helped Canada avoid the worst of the crisis. Canadian banking policy is stable, and the banks know and understand the rules under which they are operating. John Chant (2010) in a presentation at Rutgers University emphasized Canadian monetary policy as the primary difference between the Canadian and the US experience. Canadian banks are well-established, and they are embedded in their local markets. They are fairly prudent and tend to be risk-averse, despite some evident exceptions (Canadian banks, for instance, were caught in the Enron scandal). Canadian banks were somewhat less exposed to global market turmoil. Canada did well, though it is a source of contention whether its success is by design, or the result of favourable circumstances.

There is no imminent major policy reforms forthcoming in Canada, apart from the usual five year review of the Bank Act scheduled for 2012. The Canadian government, when the crisis first hit, took measures to ease the credit crunch. The government bought $125 billion of mortgage bonds (Tedesco, 2009) to increased banks' capacity to lend. The federal government also sought to address administrative concerns, amending the Bank of Canada Act to give the Bank more powers in managing the crisis. The government also promised to strengthen the Office of the Superintendent of Financial Institutions (OSFI), the federal financial services sector supervisor and regulator. Taking into account the crisis' scope, the Canadian government only had to take limited action to protect the country's financial services sector.

How is Canadian resilience to be further explained? Williams (2009) argues that globalization has brought about policy subsystem adjustments, so that policy responses reflect as much external impetus as actors' priorities in the policy arena. Presented in this way, actors in the subsystem use the pressure from the external to call for or justify a policy reform that they already favour. For instance, the Canadian government is attempting, after forty years of inertia, to create a national securities commission. Securities markets have been understood as being of provincial jurisdiction in Canada and some provinces are very reluctant to abandon their authority in this area. The central government uses as one of its justifications for this current initiative the need to better supervise and regulate securities markets in light of the global financial crisis. Changes in policy parameters can provide an opportunity opening up a policy window for the adoption and implementation of a particular policy.

At another level of analysis, Canada's financial services sector policy network is a small, integrated community. The community is unified and fairly cohesive, facilitating policy response and adjustment. As it pertains to bank supervision and regulation, Minister Flaherty (Canada Department of Finance, 2010) refers to Canada's 'coordinated regulatory approach'. There are two broad committees that consider policy issues and address supervisory and regulatory issues, the Senior Advisory Committee (SAC) and the Financial Institutions Supervisory Committee (FISC). The committees have the same membership, though their mandates differ. The SAC is chaired by the Deputy Minister of Finance and considers matters of policy relevance. The FISC is chaired by the Superintendent of Financial Institutions and is concerned with supervisory and regulatory issues. The committees are composed of the Department of Finance, the OSFI, the Bank of Canada, and the Canadian Deposit Insurance Corporation (CDIC). Both committees meet about quarterly, though the FISC met more regularly during the worst of the crisis. The same actors are present on the Board of Directors of the CDIC. The Office of the Auditor General (2010) suggests that there is enough evidence to believe that committees' work allow for pertinent information to be shared. The one potential weakness pertaining to the Canadian system is that there is not clearly an actor in charge of financial services sector stability, or systemic risk. John Crow (2009), the former Governor of the Bank of Canada, specifically recommends that the Bank be strengthened further to be in a better position to manage crisis situation and address systemic stability. Despite this limitation, the IMF (2008) has commanded Canada for its 'effective and nearly unified framework'.

There is some evidence to suggest that there exists in Canada a strong relationship between the government and private sector actors. The Department of Finance and the OSFI have established good working relationships with the country's major financial institutions. Julie Dickson (as quoted by Freeland, 2009), Superintendent at OSFI, notes that she can reach, if need be, everyone in the network in a couple of hours. She also personally attends board meetings of the major banks at least once a year.

Canada is not the only country with a relatively small financial system, a key factor in explaining network coherence. The key consideration when analysing the Canadian case is that possessing good supervisory and regulatory practices matters just as much as having the right rules. The former is quite likely, in fact, to lead to the latter.

Finally, Canada is held as an example when studying the global financial crisis (Krugman, 2010). The perception that exists has allowed Canada to credibly partake in discussions about the governing of the international financial system. The country co-presided the G20 in 2010 giving it a platform to influence reform proposals. Canada, for instance, has firmly opposed a bank tax, a topic that never formally made it onto the agenda of the G20 Toronto meeting in June 2010.

Canada is unlike our other case studies. From the standpoint of the financial services sector, the crisis was not as devastating and as deep as elsewhere. The same urgency did not exist in Canada as it did in other countries. Harris (2010) suggests that policymakers in Canada like elsewhere shirked their responsibility leading up to the crisis and that they do not appear to have learned from the meltdown. In Canada, because the country's financial services sector proved resilient, the story is indeed more of the same, rather than substantive change.

The United States

The crisis emerged and spread from the United States outwards. To a certain extent, the crisis brought back the debate between the role of states and markets. The President (US The White House, 2010) himself challenged big banks to better serve America. Popular press accounts of the crisis have certainly placed a lot of blame at the feet of large financial institutions, the culture of risks and profits, greed, all with little regard for the impact on the economy, and the greater good (Lanchester, 2010; Lewis, 2010; Sorkin, 2009). Calomiris (2009) in the Cato Journal, for his part, takes a different point of view and tends to blame poor government policy, especially lax monetary policy, along with housing policies, for the crisis. Explanations, in fact, are more complementary than mutually exclusive. They do reflect, however, very different ideological leanings. As such, reform of any kind came to be hard-fought.

Whatever the roots of the crisis, or debates thereafter, there is no doubt about the turmoil in US financial markets beginning in the second half of 2007. Just a year later, the US government had to set up the *Troubled Asset Relief Program* (TARP), initially pegged at around $700 billion, to try and prevent further deterioration. Through TARP, the government purchased assets and equity from financial firms to protect from a total market collapse. TARP was the short term solution, an exercise in crisis management. The feeling of confusion is well-captured in the PBS documentary, *Inside the Meltdown* (2009). The US government clearly needed to provide a more complete response to the financial crisis. The Dodd-Frank Act, the government's major reform initiative, was finally approved, after much debate, by Congress in July 2010.

The United States government adopted the *Dodd-Frank Wall Street Reform and Consumer Protection Act*. The legislation was excessively long, at about 2000 pages, and aimed to restore financial stability and to ensure public trust in the system. The law operated on two fronts, reforms to supervisory and regulatory structures, and changes to market behaviour. From the standpoint of supervisory and regulatory structures, the Act, among many modifications, created two new bodies, to be located at *Department of the Treasury*, the *Financial Stability Oversight Council*, and the *Office of Financial Research*. The first of the two bodies was perceived as critical because it is tasked with identifying and preventing major systemic risk. The thrust behind such an idea was to preview looming risks and prevent a particular situation from becoming a full-fledge crisis threatening the stability of the financial order. The legislation also created the *Bureau of Financial Consumer Protection*. The crisis highlighted the lack of scruples of some market players, and the lack of financial literacy of segments of the American population. The new office is to specifically address such challenges. The Act also made changes impacting directly on firms. The legislation put limits on proprietary trading, though it does not completely eliminate it. The law also provided for, in theory, increased supervision and regulation of the hedge fund and insurance industries and is supposed to lead firms away from the over-the-counter (OTC) market to the open market where there is generally more price transparency. The legislation attempted to provide for the orderly liquidation of assets when a financial firm files for bankruptcy. There were also in the legislation specific measures aimed at the mortgage industry where the sub-prime crisis began, though the extent to which they provide for significant change is open to debate. The actual impact of the Act, of course, is heavily debated and only to be determined in years to come.

The Dodd-Frank Act has been criticized from both the left and the right. The left deems that President Obama and Congress failed to deliver meaningful reforms and that the United States is not better protected today than it was before the meltdown (Taibbi, 2010). Even *The Economist* (2010) admitted that it was not sure if the Act was sufficient to avoid another crisis. The right, in turn, argues that the reforms go too far, that they will hamper Wall Street's ability to finance the US economy's recovery (Wallison, 2010). The success or failure of the reforms may, in part, lie with upcoming regulations, as is often the case with financial services sector policy, and how supervisors and regulators move forward in applying the law.

It is not possible in the context of this paper to offer a full analysis of the policy process leading to the adoption of the Dodd-Frank Act. The process, at the very least, highlighted the politics of financial services sector policymaking in the US. The policy network was, thus, comprised of various coalitions involved in a vigorous debate with diverging views about core beliefs, policy objectives and policy instruments. It would, in fact, be interesting to better flesh out this interaction. The network stretched across two levels of government, with thousands of firms of various sizes involved, think tanks, media and consumer groups, all promoting different interests, with different resources at their disposal, in an environment that was highly political and emotional. The stakes of the reforms were tremendously high, further encouraging friction. The President, and Congress, needed to come to terms on reform, if only, for political reasons of their own. The government, including regulatory agencies, had to be seen to take action to correct past mistakes, and potentially prevent future crisis. Financial services sector actors, such as banks, did not want to bear the costs of a legislative and regulatory overhaul; they, thus, had an obvious interest in minimizing government intervention, even though they needed to rehabilitate their public image. Both governments and private sector actors were interested in making sure that the financial services industries in the US remain globally competitive. The *Dodd-Frank Act* seen through this lens is in and of itself a victory, a compromise that allowed at least for something to get done.

There has always been a divide between Washington and Wall Street, with the former seemingly always trying to catch up to the latter (Van der Yeught, 2009). The latest financial crisis reflects this typical pattern. The US works hard to shape global rules, but things are never as clear on the domestic front. The reform of the financial services sector represented a full-fledge political battle from start to finish at Congress. The final legislation reflected what was possible in the context of the American political system.

The EU

The EU is a very different case study. The EU is not a state; it acts as a supranational governance entity. The EU took great strides towards financial services sector integration from the 1990s onward, but the momentum slowed, as political and popular wills waned. Of note, the section does not address the current sovereign debt crisis.

The EU response to the global financial crisis needs to be broken down into two phases. The first phase is a reminder that the EU remains, still, an intergovernmental arrangement. Countries of the EU were unevenly hit by the financial crisis, and repercussions varied across the continent. The EU was not able to respond with a unified voice when the crisis struck, and each national government sought to protect its own. The UK's original bank bailout plan in October 2008 was estimated at potentially more than US$822 billion (Reed, 2008), with further aid announced just a few months later in January 2009. The German plan was estimated at US$672 billion (Business Week, 2008). France's bailout of banks was considerably smaller, but the government still needed to support some of the country's key financial firms. The unity that seemed to have been built in previous years disintegrated, as states sought to first and foremost protect their national economy. Across Europe, the response was *ad hoc* and state led. There was no EU mechanism to address the crisis, some communication but not a lot of coordination. Policymaking was clearly national in scope. The crisis highlighted the limits of political and economic integration, though the end result, as discussed below, may well be more of both.

The second phase came as EU institutions proposed reforms to the supervisory and regulatory structure in the financial services sector. The EU has now approved a reform package that seeks to redress major gaps that became evident during the financial crisis. The package is to strengthen the EU institutional capacity so that if another crisis were to take place, EU members could respond more cohesively. The de Larosière report published in February 2009 provided the impetus for change. The *High-Level Expert Group on Financial Supervision in the EU* was "requested to make proposals to strengthen European supervisory arrangements covering all financial sectors, with the objective to establish a more efficient, integrated and sustainable European system of supervision" (European Commission, the High-Level Group on Financial Supervision in the EU, 2009: 69). The report highlighted systemic weaknesses in macro and micro-supervisory arrangements at both the global and European levels. As the many rounds of consultation ran by the European Commission had demonstrated, the regulatory and supervisory structure, often called the Lamfalussy process, that had been put in place to legislate, implement and monitor the previous integration efforts in the financial services sector had reached its limits (European Commission, 2009). New and stronger institutions, the de Larosière report argued, were needed to ensure further integration, the uniform implementation of European policy, as well as cooperation and coordination across states.

The European Commission endorsed the report's recommendations and proposed reform both at the macro and micro level. In September 2009, the Commission proposed the creation of the *European Systemic Risk Board* (ESRB) to address issues of macro-supervision. The new entity is entrusted to the ECB and given the authority to monitor and prevent risk throughout the financial system to ensure financial services sector stability. To deal with micro-supervisory issues, the Commission proposed the creation of the *European System of Financial Supervisors* (ESFS), composed of three new financial authorities, the *European Banking Authority*, the

European Insurance and Occupational Pensions Authority, and the *European Securities and Markets Authority* (European Commission, 2009). The ESFS replaced previously existing committees with authorities that are granted more powers for market supervision. Essentially, the authorities' mandate is to focus on the consistency of financial services sector rules across Europe. The ESRB and the accompanying ESFS also aim to give Europe a more unified voice during international negotiations.

The European Commission, the Council and the Parliament approved the reform. The new authorities were created in January 2011, with developments ongoing. The debate leading up to the agreement focused on the role and exact powers of both the ESRB and the ESFS. The Parliament, in particular, sought extensive supervisory powers for the ESFS, in comparison to the largely advisory role of previously existing committees, which were resisted by the Council. The European reform is structural in nature. The EU has not yet moved towards major legislative or regulatory change, though further discussion is expected. Reforming institutions has been the achievement so far. Reforming policy across a continent where perspectives for economic growth and perceptions of the role of financial markets differ widely is difficult. The EU has shied away, for now, from some of the most controversial policy proposals, such as a bank tax.

The policy network in the financial services sector in the EU represents a cross between an intergovernmental and a professional network. The sequence of events in response to the crisis tends to support this viewpoint. The initial response came from national governments, and business had little leverage. As the response unfolded, EU institutions became more involved. The quasi-natural interplay between EU bodies (the Commission, the Council, the Parliament, the European Central Bank, and Committees/Authorities), national governments (Departments of Finance, central banks, and supervisory and regulatory agencies), large firms and professional associations resumed. Within this network, there remains a consensual view on the need to have fully integrated financial markets to sustain real and long-lasting economic growth. There is still a belief that the crisis was made worst because of the inability of the bloc to respond as a whole. There is, thus, a corresponding desire to ensure further integration. Yamashita (2011), in fact, suggests that governance fragmentation in the financial services sector is for now Europe's largest impediment. There is also a sense that the EU can provide a different model of capitalism, an alternative to the US system. From that perspective, European leaders are also intent on making finance industries more competitive, with the US and with Asia.

The policymaking context in Europe is not free of tension. Domestic institutional settings, national laws and regulations, and cultures differ, complicating integration processes. There is competition within the EU across financial centres. The European Parliament initially rejected the proposed reforms put forth by the Commission, interjecting into a network where it traditionally only played a supporting role. Parliament's new powers obtained as a result of the Lisbon Treaty partly explains the organization's willingness and capacity to flex its muscles. The Parliament generally saw it as its role to defend citizen's interests, and wanted the ESFS to be able to exercise real authority. The current crisis in public finance faced by many European countries further highlights discords, with some national governments not as interested in committing to Europe as might have been the case in the past. That being said, there is still a general agreement on financial services sector integration objectives, even when there is disagreement on instruments and best policies. From the perspective of the financial services sector, the network as a whole is rather cohesive. More integration in the years to come is to be expected, not less.

The argument made in this section is not that the policy network moved from an intergovernmental network to a professional one as a result of the crisis; rather, the network exhibits characteristics of both types. The EU's response to the global financial crisis is evolving, especially as the first crisis morphed into a new one focusing on public finance. Europe, clearly, is to grapple with that particular challenge for many years to come.

Conclusion

The paper has sought to describe and analyze how Canada, the United States and the EU have responded to the global financial crisis. There is a general consensus on the need for better global governance of the financial services sector, but reform, not surprisingly, has largely remained so far a domestic affair. Policy network arrangements provide an avenue by which to explain responses. Canada's network is a tight-knit policy community that has remained fairly cohesive in light of market turmoil. The American network can be called an issue network, bringing together a large number of actors, with varied resources and interests, complicating policy negotiations and decision-making. The European response took place over two distinct periods – from confusion to structural reforms. The mix of an intergovernmental and professional network helps to explain such an outcome.

Four other observations are warranted. First, the paper has not sought to provide a comparison of the reforms, though such an exercise would be of interest. Despite global pressures, and similar considerations, there does not appear to be policy convergence across the three states and jurisdictions studied. In the three case studies, as an example, there is interest in considerations of systematic risk, though approaches remain different. Though such an observation is preliminary, it serves to highlight the fact that financial services sector policymaking is forged out of institutional legacies and considerations.

Second, the policy changes adopted so far are not radical; they reflect possible compromises across actors in the policy network. Despite comments made during the worst of the crisis on the prospect for capitalism, the key assumptions on the role of financial services sector markets in society have not been questioned. The observation applies across all our case studies. There has been policy and regulatory adjustments, some of which are more important than others, but not wholesale change.

Third, the timing of policy reform becomes important. The crisis has receded and the impetus for reach change may no longer be as strong. For those that think major reforms are needed globally and across states, the policy window may be about to shut close, if it has not already. The best chance for substantive policy reforms may have passed.

Last, assuming observations above are correct, what have policymakers actually learned, if anything at all, from the crisis? Canada's apparent accomplishment, at least the success discourse, prevents learning. The divisions in the US political system make learning extremely difficult. European leaders seem most intent on learning from this crisis. Whether or not the current sovereign debt crisis leads to real economic governance remains to be determined. The corollary question is, if policymakers are not learning, what explains the non-action?

Few argue the severity of the global financial crisis. Beyond the hype, the response, from a policy perspective, has remained so far largely subdued.

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