Confronting stylized facts with reality
The role of interest groups in banking regulation policy

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Abstract The article focuses on the role of interest groups in policy making under conditions of globalisation. Building on the Stolper–Samuelson theorem from international trade theory, it has been argued in the literature that interest groups’ domestic political negotiation power varies with the mobility of their factor of production, and that therefore a policy shift towards the interests of capital owners (i.e. liberalisation of domestic regulations) should be observable. Drawing on empirical evidence from detailed case studies in the area of state banking regulation in the United States, Switzerland, and Spain, the article presents examples for bank associations and other representatives of the capital side to blocking or considerably delaying government-initiated attempts at liberalisation. It also demonstrates that the role of interest groups in policy making varies considerably between countries, and that therefore highly specific patterns of interaction exist between interest groups and national political systems. The article concludes therefore that the consideration of situation-specific context, rather than the use of generalising assumptions on a highly aggregated level, is called for in the analysis of interest group influence on policy making.

Keywords Interest groups · Banking regulation · Convergence · Regulation

1 Introduction

The analysis of interest groups and their effect on policy used to be centre stage in analyses of political economy in the past – one need only think of the seminal

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contributions produced by Olson (1968, 1982) or the libraries of paper sacrificed to the discussion of the concept of corporatism (starting with the volumes Schmitter and Lehmbruch 1979; Lehmbruch and Schmitter 1982).

But academic analyses of interest groups, like much else, are liable to business cycles of interest (Czada 1994), and if that is so, then it is probably correct to diagnose that the latter is currently undergoing a recessionary phase, maybe even a depression. Over the last decade or so, especially in the United States, analyses of politics have more and more tended to emphasize formal modelling in a quest to build models of politics from first principles and highly parsimonious assumptions.

As a result, little place is left for the analysis of interest groups – if we look for example at one of the most influential recent books about how political institutions work – the rightly highly praised book on “veto players” by Tsebelis (2002) – we find that interest groups don’t even any longer merit an entry in the index.

The present paper does not attempt to argue that these developments are wrong or misguided – there is much to be praised in the attempt to make political analyses clearer and more precise through formalisation, to delineate more clearly what we know and what we don’t know about the workings of political institutions. However, this seems to come at a price, namely that of a reduced sensitivity to the context within which political institutions operate. But it is this context that is a prime variation between countries, and thus of great importance for the understanding of political institutions if it aims to be generalisable. Neglecting to include that context into models of political analysis will run the risk of rendering the latter valid in fewer countries than might be the case if context were explicitly included.

The paper presents empirical examples which seek to illustrate the substantial variation in interest group involvement across political systems by drawing on case studies from a number of countries. It starts with a brief summary of how the standard Heckscher–Ohlin model of international trade theory has been adapted by political scientists to explain the influence of domestic interest groups, and it then confronts the predictions of that model with empirical evidence from a number of countries. The conclusion argues that while economic analysis of interest group behaviour is highly welcome, great care has to be taken with the level of analysis. Policy networks and interest group systems evidently vary greatly between countries, as does interest group influence on the policy process. Model-building aiming at maximizing parsimony thus runs the risk of neglecting context; but taking context into account seems particularly important if we want to enhance our understanding of the role of interest groups on public policy.

1 They draw on the author’s research on state capacity under conditions of globalisation and specifically state regulation of the banking sector (Busch 2003, 2007), and on a project on “success and failure in public governance” in which the author was involved as sectoral editor (Bovens et al. 2001).