European University Institute

DEPARTMENT OF POLITICAL AND SOCIAL SCIENCES

Once Bitten, Twice Shy:

Financial Crises, Policy Learning and Mortgage Markets in Advanced Capitalist Economies

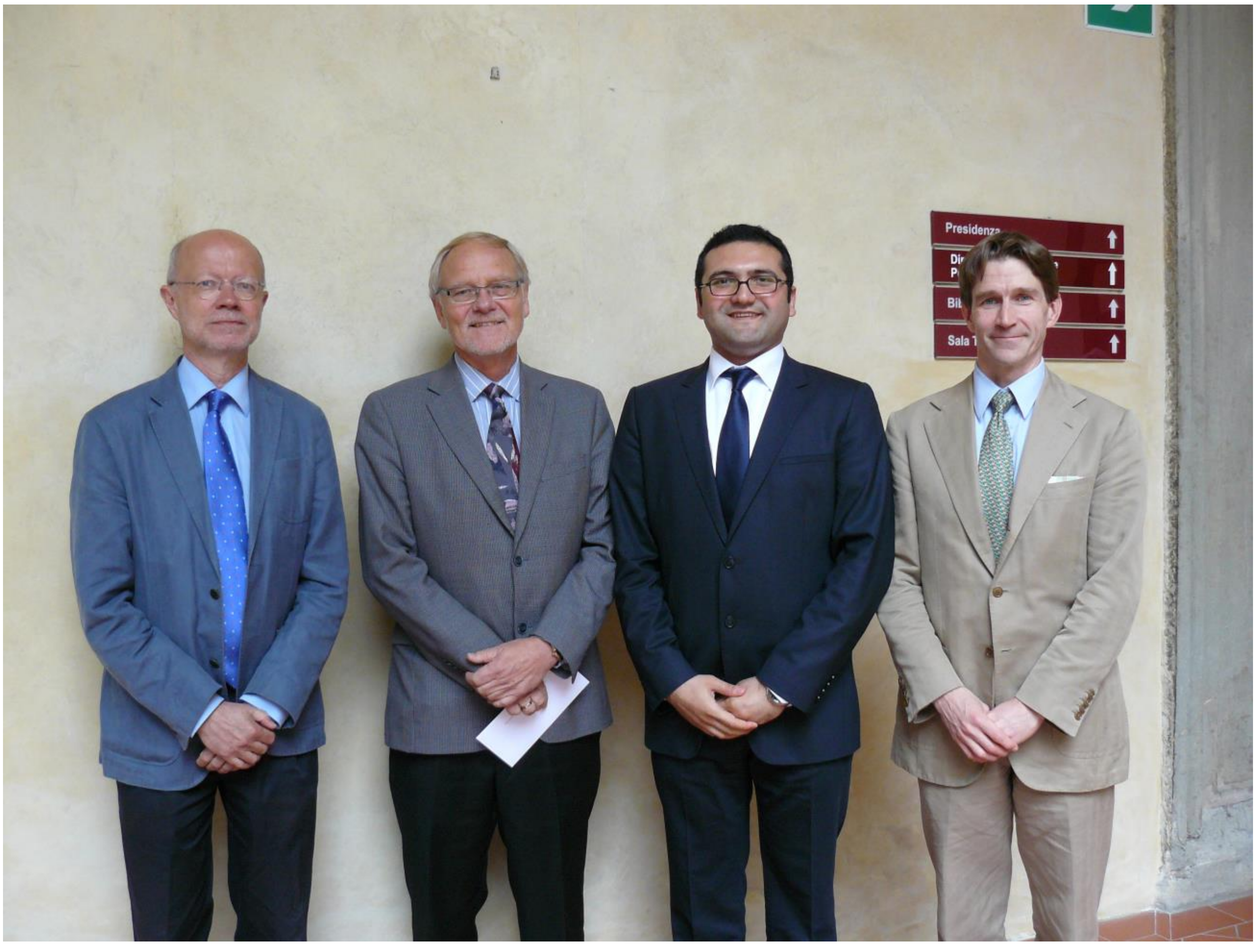
Ismail Emre Bayram
Ph.D. thesis defence on 30 April 2014

Abstract

Do nations learn from their financial crises? In addressing this question, this dissertation explores whether politicians, supervisors and bankers change their preferences towards financial markets when they recognize they have made significant mistakes in the recent past. It also asks whether such recognition of failure leads to a process of change in rules, policies and institutions, in different national contexts.

In addressing this broader theoretical question, the dissertation focuses on the mortgage credit markets in advanced capitalist economies. Challenging the conventional approaches in political science and financial economics, it shows that the longitudinal and cross-sectional variations in mortgage credits markets can best be explained with reference to nations' different experiences of financial crisis. Borrowing insights from learning theory in political economy and public policy analysis, it argues specifically that those nations (i) that had severe financial crises in their recent past and (ii) that have coordinative institutions and elites, are more likely to draw lessons from their mistakes, and to change their policies, in order to avoid similar asset bubbles and financial crises in the future.

This dissertation adopts a multi-method approach in examining the role of learning in the evolution of mortgage credit markets. A significant part traces the history of mortgage credit and financial crises in three countries, from a comparative perspective. Stressing a comparison between two institutionally similar countries, Sweden and Denmark, the dissertation shows how differences in the severity of crises may yield opposite outcomes in elite perceptions towards financial stability, and how they explain the differences in policy and market outcomes. On the other hand, comparing Sweden to Britain – two countries with similar crisis history but with different institutions – it stresses the positive role of coordinative institutions and coherent elites in translating the crisis experience into actual policy and institutional change. In addition to the comparative-historical analysis, the econometric parts of dissertation show that the inferences drawn from three cases can be generalized to a sample of 19 OECD countries. The results indicate that the countries with a negative experience of financial crisis in the early 1990s are more likely to have smaller mortgage markets in comparison to other countries, and that this effect is stronger in countries with coordinative economic and policy institutions.



Jury: Peter Englund (Stockholm School of Economics), Sven Steinmo (EUI, Supervisor), Ismail Emre Bayram (candidate), Pepper Culpepper (EUI), Gunnar Trumbull (Harvard Business School, via videolink)

Bio

Ismail Emre Bayram is a post-doctoral researcher at the Max Planck Institute for the Study of Societies (Cologne, Germany). He has previously held visiting researcher positions at the London School of Economics and Political Science (LSE), Copenhagen Business School and the Swedish Institute for Future Studies. Bayram's research focuses on comparative political economy of advanced industrial nations and financial crises. In particular, his work examines to what extent financial crises lead to policy learning and policy change in financial regulation.