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The Politics of Bank Bailouts

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Abstract

In the fall of 2008, banks around the world were at the brink of failure, and governments, in an attempt to save them, took over huge amounts of risks, jeopardizing their own solvency. The American government brought a $700bn rescue program through Congress and recapitalized all major banks. Many scholars see bailouts, particularly the one in the United States, as the product of crony capitalism: Politicians grant bailouts as side-payments at the cost of the general public.

In this thesis, I argue that this view misunderstands bailouts. It overlooks that voters, too, benefit from banking bailouts. In effect, the interests of voters and banks overlap because both prefer avoiding the crisis to deteriorate. Voters benefit from government interventions because they mitigate the impact on the economy and reduce the losses to investments. The latter is especially important for voters in countries with financialized pension systems because financial turmoil threatens voters' retirement savings. Thus, this dissertation advances the debate on bailouts by arguing that the current contributions neglect politicians' electoral incentive to bail out banks and exaggerate the importance of banks' privileged access to policymaking and their lobbying power.

This dissertation also contributes to the debates on business power and the power balance between the legislature and the executive. I argue that recent scholars of business power have mistakenly understood instrumental power to come from deliberate actions and structural power from automatic mechanisms. But structural power does not have to function automatically; business can invoke its structural power intentionally and strategically. And banks' strategic use of structural power explains why British banks could thwart the government's preferred crisis intervention, but American banks could not, and why the British government ended up with large losses, while the American government got its money back. This dissertation relies on a combination of qualitative and quantitative methods. I examine the banking bailouts in the United Kingdom and the United States comparatively using data from various sources, including my own interviews with top-level policymakers. To test a number of hypotheses on an extended set of cases, I use cross-national regressions of bank bailout size. Thus, I bring new and broad-based evidence to recurring debates in political economy and to the discussion about bailouts, a policy that recast the relationship between markets and the state.

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Bio

Raphael Reinke holds a Diploma (MA equivalent) in international economics from the Eberhard Karls Universität Tübingen, Germany.

He conducted his doctoral research at the European University Institute and, as visiting scholar, at the LSE's European Institute and at the Max Planck Institute for the Study of Societies in Cologne. His research interests are comparative politics and political economy. In his dissertation, he examined governments' crisis management during the global financial crisis in 2008/9, the structural power of business and executive-legislative relations.

Since June 2014, he is a postdoctoral scholar at the University of Zurich.