



# The Political Economy of Financial Risk & Preferences

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## Abstract

Does exposure to financial market risk lead to a shift to the political left? This dissertation studies the effect of financial risk on policy and party preferences. I analyze three different types of financial risk: student debt, mortgages, and private pension savings. They are the result of the three most important financial investments of households. I examine their effect on attitudes towards taxation, labor market, monetary, and social policies, as well as party support, and vote choice in the 2000s. This decade witnessed both a boom and bust of financial markets.

All financial investments have in common that they first lower income, but promise higher income in the future. They are also substitutes for social insurance and other social benefits. Following the median voter theorem, there should be a shift to policies and parties on the right of the political spectrum when income increases. At the same time, individuals are exposed to financial risks: What happens if the investment does not pay off? Therefore, individuals will demand policies that both protect the returns of their investment as well as shelter them from risk.

I argue that there are four effects: the income effect, the insurance effect, the risk effect, and the crisis effect. The income effect leads to a dislike for higher taxation. The insurance effect reduces demand for redistribution. The risk effect leads to different demands for different targeted policies, and the crisis effect reinforces both the income and risk effect.

Analyzing panel and survey data from the United Kingdom and United States, as well as a comparative data, I show that savers are united and borrowers divided. I find that financial market risk, unlike labor market risk and contrary to what we would expect from the literature on the effect of globalization in individual attitudes towards the state, moves individuals further to the right. The crisis reinforced this effect.

This dissertation speaks to previous research in welfare state retrenchment, new social risks, and inequality in post-industrial economies. It sheds light on the question of why we have not seen a new powerful group fighting for redistribution in the wake of the last crisis.



**Jury:** Jonas Pontusson (Université de Genève), Sven Steinmo (EUI), Anna auf dem Brinke (Candidate), Pepper Culpepper (EUI, Supervisor), Ben Ansell (University of Oxford)

### **Bio**

Anna auf dem Brinke's research interests lie in the field of political economy. She is particularly interested in redistributive politics in advanced capitalist economies, drawing on different quantitative methods. In her dissertation, she studies the effect of financial risk on policy preferences and vote choice. Among others, she analyses the link between student loan debt and individual preferences.

Anna holds a BA in Economics and Philosophy from University College London and an MSc Research in Political Economy from the London School of Economics and Political Science. She was a visiting researcher at the Berlin Social Science Center (WZB) and the Department of Political Science at Yale University.