

Structural Power and Bank Bailouts in the United Kingdom and the United States

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Abstract

The 2008 bailout is often taken as evidence of the domination of the US political system by large financial institutions. In fact, the bailout demonstrated the vulnerability of US banks to government pressure. Large banks in the United States could not defy regulators, because their future income depended on the US market. In Britain, by contrast, one bank succeeded in scuttling the preferred governmental solution of an industry-wide recapitalization, because most of its revenue came from outside the United Kingdom. This was an exercise of structural power, but one that most contemporary scholarship on business power ignores or misclassifies, since it limits structural power to the automatic adjustment of policy to the possibility of disinvestment. We show that structural power can be exercised strategically, that it is distinct from instrumental power based on lobbying, and that it explains consequential variations in bailout design in the United Kingdom, the United States, France, and Germany.

Keywords

political economy, structural power, business, financial crisis, bailouts

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Moments of political crisis throw into relief the underlying power conflicts in society. The colossal transfer of risks from big banks to US and British taxpayers in 2008—in the service of preventing a financial meltdown—is perhaps the best recent example of this phenomenon. Scholars and former officials have pointed to the US bailout as a case of crony capitalism run amok.¹ A Republican treasury secretary and former head of Goldman Sachs gave the largest nine banks \$125 billion to keep the system of credit from freezing up. The banks got the money, none of their CEOs was fired, and attempts to channel some of the aid toward mortgage relief for the broader economy were in vain. Meanwhile, in the United Kingdom, a Labour government injected \$111 billion into two of its largest banks. That help came at a steep price, as the government fired the CEOs of these banks, while ensuring that healthier British banks shored up their balance sheets independently of government funding. The UK government seemed more punitive than the US government while being more conservative with taxpayer money, a result that presumptively reflects the greater power of American banks in the US political system.

This, at least, is the conventional story of the American and British bailouts.² It is wrong, both in its claims that the UK government drove a better bargain for taxpayers with its large banks and that the US bank bailout reflects the domination of the US government by large financial institutions. In fact, the US government got a better deal from its banks than did the British government, and it did so because American banks wielded less power than their British counterparts. Why has the conventional wisdom so misunderstood the character of the American and British bank bailouts? Observers have focused on the generosity of bailout terms, including the firing of the chief executives of weak banks—those on the brink of insolvency. However, the important difference between the British and American bailouts lies in the terms imposed on healthy (clearly solvent) large banks. Financially strapped banks could not challenge the government in either country. They had to accept whatever policy the government offered, because only with government aid could they have survived. But healthy banks were not dependent on state aid. Healthy banks in Britain were in a better position to resist the state, and they drove a better deal for themselves than did US banks. As a result, the British government absorbed more risk than the US government and lost taxpayer money, while effectively providing a costless subsidy to its healthy banks, which benefited from the stabilization provided by the bailouts. In contrast, the United States made a profit from its bank bailout, because it was able to bully healthy large banks such as JP Morgan and Wells Fargo into a collective recapitalization plan.

Theoretically, we return to a fundamental debate about the role of business in politics.³ The bailouts illustrate how social scientists have focused on the instrumental power of banks while ignoring their structural power. Instrumental power includes lobbying capacity and campaign donations. On these measures, the United States looks like an especially captured system.⁴ But when looking at the structural power of banks—which we operationalize as their ability to defy national regulators because of the internationalization of their markets—the situation of banks in the United States and the United Kingdom changes dramatically. Because all the large banks in the United States rely on the American market for their future revenues, they enjoy less

structural power vis-à-vis the US government than do their counterparts in other countries, such as the United Kingdom, that do not depend heavily on a given domestic market.

In the next section we discuss the distinction between structural and instrumental power of business, arguing that recent scholarship has neglected structural power because it has not conceptualized the ways in which structural power can be used strategically. The third section explicates our methodological approach, which employs evidence from the structure of the banking sectors in the United States and the United Kingdom and from process-tracing, in which we use interviews with senior policymakers to evaluate our claims about the power of US and British banks in negotiating with their governments.⁵ The fourth section evaluates the policy design of the two bailouts, and the fifth section tests hypotheses of structural and instrumental power of banks against the evidence of policy development in the two cases. A penultimate section extends the argument comparatively to bailouts in France and Germany. A final section concludes with directions for future research.

Two Dimensions of Business Power

To understand the character of business influence on important policy outcomes such as the bank bailouts of 2008, we revisit the conceptual distinction between the structural and instrumental power of business. Instrumental power comprises the various means, unrelated to the core functions of the firm, through which business influences politics: donations for campaigns, privileged access to policymakers, and lobbyists and organizations that defend business interests.⁶ Structural power, by contrast, inheres in the fact that firms are agents of economic activity in capitalist democracies. Because the state relies on firm investment to generate growth, the ability of companies not to invest can cause damage to the economy and thereby to the politicians governing it. Because a negative policy, or even the anticipation of one, may lead firms to lower their rate of investment, scholars have characterized the democratic state as structurally dependent on capital.⁷ Governments are predisposed to adopt policies that promote firm investment, even without business leaders necessarily having to do anything.⁸

Scholarship from the 1970s and 1980s recognized the fact that this structural power—for example, in the form of coordinated “capital strikes”—could be exercised strategically by business as part of a campaign to change government policies.⁹ Yet a strange thing happened to the literature on business power: as the influence of neoliberal ideas waxed in the advanced capitalist countries, analytical attention to the ways in which business exercises influence on the state waned. In this process, the concept of structural power as a resource that could be used strategically by business disappeared from the literature, to be replaced by a version of structural power that operated *only* as an automatic adjustment of the level of investment, which would punish politicians who adopted policies to which business is averse, and whose anticipation therefore would deter adoption of the policy in the first place. Charles Lindblom may in this sense have been a victim of his own rhetorical success in describing business

disinvestment as the “automatic punishing recoil” mechanism through which business disciplines government.¹⁰ By the 1990s, the relatively scarce political science scholarship that used the term structural power conceptualized it exclusively in the sense of the automatic reaction of policymakers to the investment decisions of companies.¹¹ When current scholars of business write about “capital strikes” that involve any deliberate action, they now classify them as instrumental power—erroneously, in our view.¹² Where capital strikes involve coordinated political action among companies, the power exercised by business flows directly from its role as the capital holder in the economy and its growth and employment capacities, not from its investment in lobbying offices or trade associations.

For political scientists, structural power as a causal variable is now only conceptualized as a background condition against which politics plays out, not as an active resource employed by business in the political arena. Thus, when Jacob Hacker and Paul Pierson attempted to revive analytical interest in the concept of structural power in an influential 2002 article, they argued that federal political systems increased the structural power of business by giving companies easy exit options.¹³ However, even Pierson and Hacker bought into the prevailing definition of structural power, arguing that this “power is structural because the pressure to protect business interests is generated automatically and apolitically.”¹⁴ Thus, “the extent to which business influences specific policy choices will be a function of instrumental rather than structural power” because the possibility of disinvestment “can set the agenda for governments and help to define (or rule out) alternatives, but this signal cannot tell governments what to do.”¹⁵ In this now typical formulation, structural power sits in the background of agenda-setting, while instrumental power does the hard causal work on specific pieces of legislation.¹⁶

Following this line of thinking, scholars, journalists, and former regulators examining the American bank bailout have converged on a similar diagnosis: the government bailed out the banks because they enjoyed privileged access to Washington’s policymakers.¹⁷ Banks have consolidated this Washington-Wall Street axis by donating so much money to Republicans and Democrats that both parties work in the interest of large financial institutions.¹⁸ Their special influence is reinforced by the infamous revolving door, which circulates policymakers into lucrative jobs in banks and bankers into public office.¹⁹

We argue that the outcome of the bailouts can only be understood by reference to the structural power of big banks vis-à-vis governments. Much contemporary research is blind to this fact because many scholars have collapsed structural power into the much narrower category of “structural power that works automatically through the anticipation of policymakers.” Although structural power can certainly work automatically, it can also be deployed deliberately, with strategic intent. In fact, *both* structural and instrumental power have automatic aspects, in that they require no conscious activation in order to function. Disinvestment and the possibility of exit are the most prominent features of the structural power of business; both work automatically, through the anticipation of policymakers. But the instrumental power of business in capitalist democracies includes the presence of decision makers who, by virtue of their

background, are friendly to business.²⁰ This is a resource that helps business, whether companies take any action or not. A similar sort of instrumental power arises from career ladders that involve a “revolving door” between senior positions in government and the private sector.²¹ These operate automatically in the individual calculus of decision makers. Such considerations are correctly classified as elements of instrumental power, just like lobbying organizations and campaign contributions, because they involve influence on decision makers that is based on something *other* than the function of private firms in a capitalist economy.

As this discussion suggests, previous work has, in fact, combined two dimensions of business power into the single dichotomy between structural and instrumental power. The first refers to the source of power: structural power flows from the economic position of the firm in an economy, whereas instrumental power flows from resources extrinsic to the core economic activity of the firm. If we imagine business as a poker player, structural power refers to the cards she holds in her hand. Instrumental power refers to everything beyond the cards—from the quality of her poker face to the incentives of her poker companions to let her win because she might be able to offer them a job in the future.

The second dimension of business power, which the past twenty-five years of scholarship has ignored, refers to the way in which these resources are mobilized by business: automatically or strategically (through deliberate choice). Automatic capacities require no action on the part of business. They work through the anticipation of the object of possible action: in this case, policymakers, who fear the possibility of disinvestment and change policy spontaneously. Strategic capacities, by contrast, *do* have to be deliberately exercised in order to be effective. Lobbying organizations and campaign contributions are intentional efforts by business to get something from policymakers; but so too is the bargaining position adopted by large firms when negotiating with policymakers. Whether business leaders have bought access or not is a past product of their strategic instrumental capacities. But, in any given negotiation, their bargaining position itself is a product of the *structural* position of their firms. If the poker play is holding a straight flush, it doesn’t matter whether or not she has a good poker face. She is likely to win the hand. Those who would require structural power to work through the automatic adjustment of policymaker preferences assume that she will win the hand as a result of the other players automatically folding. We argue that the act of putting one’s cards on the table is a deliberate use of the cards, one that requires the exercise of agency on the part of the winning poker player.

Table 1 portrays the intersection of these two dimensions. The columns distinguish strategic from automatic aspects of business power, while the rows separate instrumental from structural power. The difference between automatic and strategic structural power lies in the way in which the structural role of a company in the economy has an effect on policy. Is power exercised through the policymaker’s anticipation of a business logic (i.e., “it is not worth it for us as a company to produce widgets at tax rate x ”)? Or does it instead result from the deliberate use of economic power (i.e., “we as a company refuse to do what the government asks us to do, and we cannot be forced by the government to do it”)? Disinvestment (or exit), which works through its

Table 1. Two Dimensions of Business Power.

	Strategic	Automatic
Instrumental	Organizational Lobbying Campaign Contributions	Pro-Business Policymakers Public-Private Revolving Door
Structural	Outside Option	Disinvestment

anticipation by policymakers, is an automatic resource. Strategic structural power is a bargaining resource, one that has to be invoked if a bank wants to deter a government's preferred policy.

Borrowing the language of game theory, we describe this resource as an outside option: the payoff the bank gets if it refuses the deal on offer from the state. The outside option is not necessarily a threat to *exit*; it is to have enough alternative business revenue to be able to ignore the threat of *regulatory sanctions* in one jurisdiction.²² The outside option of large banks depends on how much state policymakers can credibly threaten to influence their future income stream. The existence of a plausible outside option confers on large companies a degree of regulatory impunity.

Regulatory authorities in profitable jurisdictions have their own power over banks, one little remarked on in the current literature: the ability to impose future costs. From a legal perspective, it is very easy for banks to leave the United Kingdom or the United States. Exiting those countries, however, means sacrificing the profits to be made there. And there are substantial gains to be made for banks operating out of London and New York. Banks dependent primarily on their profits from these markets lack a viable outside option in bargaining with the state, because the costs a regulator can impose in the future dramatically lower the bank's payoff if it refuses to accept the state's deal. The more money banks expect to make in these jurisdictions, the higher the cost of crossing regulatory authorities. The strategic structural power individual banks can use vis-à-vis the state is therefore a function of the dependence of a bank on the domestic market.²³ Structurally powerful banks—those with an outside option—are those that earn a large share of their revenue abroad.

Financial Crisis as a Test Case of Strategic Structural Power

Unusual events provide opportunities to test the empirical implications of rival theories, which are often rather close in practice. A famous example comes from the fact that most of the predictions of Einstein's theory of relativity resemble those of Newtonian physics. One key distinction—the extent to which gravity would bend light—could only be observed during a total solar eclipse, as occurred in 1919. Einstein's theory predicted that astronomers would be able to observe distant stars located behind the sun, because the sun's gravity would bend the light around the sun. And thus the theory of relativity received empirical support that was difficult to find in a lab.

Financial crises offer similar methodological advantages of the solar eclipse for purposes of empirical testing. Just as the brightness of the sun washed out the ability to observe stars located behind it, so too does the glaring flow of money into politics—the most visible weapon of strategic instrumental power—wash out the observable effects of structural power. It is only when a crisis of substantial magnitude throws into clear relief the contending play of different sorts of business power, by channeling government action into a discrete number of negotiations between banks and the government over a few days, that we can evaluate the relative strength of various sorts of business power in politics.

A hypothesis derived from strategic structural power predicts variation between countries if some have large banks that are highly internationalized and thus capable of resisting regulatory pressure. We do not assume that governments automatically make the policy that banks prefer. The leaders of banks have to exercise this power in negotiation—they have to lay their cards on the table. This is an exercise of strategic structural power, and it is a prediction made only by our theory. In contrast, a hypothesis of strategic instrumental power predicts that variation should occur between countries on the basis of where businesses have contributed the most to politicians;²⁴ where they have developed the best lobbying apparatus;²⁵ or where they are most likely to find politicians who by partisan disposition are more sympathetic to the interests of business.²⁶ If these different sources of strategic instrumental power mapped differently onto our two cases, that would pose a problem of untangling different causal strands of strategic instrumental power. Fortunately, from a methodological point of view, all three types of strategic instrumental power produce the same prediction for our core comparison: the United States, with its powerful lobbying groups and oceans of money from finance allowed to flow into politics, should unambiguously yield an outcome more friendly to healthy banks than should the United Kingdom, if instrumental power is the primary determinant of bank bailout policy.

Several considerations motivate our primary comparison between the United States and the United Kingdom. The two countries are both liberal market economies with large and globally important banks.²⁷ This similarity holds constant an important potential source of variation in the bailout policies adopted. London and Wall Street are the world's two leading financial centers, and the bailouts in these two countries were among the most substantively important in the international economy. The different policy options adopted in the United States and the United Kingdom will orient future policy discussions around the design of bank bailouts. A further objective is to incorporate the United States into a comparative political analysis of how banks exercise political power. The United States has been the subject of most recent scholarship dealing with the political power of financial institutions.²⁸ Yet this work fails to compare outcomes in the United States to those in other capitalist countries. The political power of large banks is not unique to the United States; it is a feature of capitalism. Thus, the appropriate empirical question is not “how well did American banks do in the financial crisis?” but instead, “how well did American banks do compared to banks elsewhere?”²⁹

Bailout Policies in the United Kingdom and the United States

Lehman Brothers' bankruptcy on September 15, 2008 sent shock waves through the international financial system. Other financial institutions failed or were near failure within days, catalyzing a chain reaction in the US and British banking sectors. Bank of America took over the investment bank Merrill Lynch. The Federal Reserve and the Treasury bailed out the insurance giant AIG, and regulators closed down Washington Mutual. This in turn, put pressure on Wachovia, which was eventually taken over by Wells Fargo. A week after the Lehman failure, the two remaining US investment banks—Goldman Sachs and Morgan Stanley—sought legal conversion into conventional bank holding companies.

In Britain, Lehman's demise similarly brought two British banks close to collapse, Bradford & Bingley (B&B) and HBOS. The government nationalized B&B and transferred its deposits to another bank. HBOS agreed to merge with Lloyds after the government granted a waiver of competition rules. The UK banking sector had been marked by a relatively low number of independent banks, even before the crisis.³⁰ There had been nine independent banks in the index of the largest 100 companies traded in London. In the wake of the Lehman bankruptcy, only five were left: Barclays, Royal Bank of Scotland (RBS), HSBC, Standard Chartered, and Lloyds/HBOS.

Facing an existential crisis of their banking systems, the US and British governments both intervened on a sector-wide scale and provided liquidity, debt guarantees, and recapitalizations. In many ways, these policies were alike. However, the US plan contained a number of design features that made it better—from the perspective of the government and the taxpayer—than the British plan. Critics of the US plan have downplayed or ignored these crucial elements of the policy.³¹ The US Treasury Secretary, Hank Paulson, managed to include all major banks actively in the plan; all of them took state capital, whether they needed it or not. This allowed Paulson to avoid putting money exclusively in the worst banks and to finance the bailout through cross-subsidies among the banks.

In the repertoire of bailout options, there are two different sorts of measures; banks want one, but not the other. Some policies help banks get access to funding, which the government can grant through central bank liquidity or through guaranteeing banks' debt. The latter allows troubled banks to get loans in the market, because the government stands behind these loans and will pay creditors were the bank to fail. This is what every bank wants. The other type of measure is injecting capital; that is, the government gives money to the bank in exchange for shares in the bank. Banks loathe this policy, because the government becomes their shareholder. Existing shareholders take a hit in the value of their shares, and the government is likely to interfere with the management of the bank. It also marks them with a scarlet "B" for bailout, putting them at a disadvantage in future policy debates. For this reason, banks try to get around state recapitalizations when they can.

The only banks that can avoid a state bailout are the financially sound banks. If healthy banks achieve their preferred outcome of avoiding state recapitalization, the

result is a poor outcome for the government: it puts state money in the worst banks only. When banks are left to choose whether to raise capital privately or to take it from the government, all the banks that can raise private money will do so. The ones that will take state capital are those with the weakest financial outlook.

Banks asked for more liquidity on both sides of the Atlantic, but they did not want recapitalizations.³² Jamie Dimon, CEO of JP Morgan, told his board that accepting the government's money "is asymmetrically bad for JP Morgan."³³ In the United Kingdom, Fred Goodwin from RBS continuously denied that his bank had solvency problems, and insisted it merely had problems of liquidity.³⁴ RBS agreed, eventually, to capital injections, because, as one observer told us, "they were wholly dependent on the Bank of England for cash. And they weren't in a position to argue about the terms, which is why Fred Goodwin said, it was like a drive-by shooting, not a negotiation."³⁵

In the United Kingdom, the choice between private and public recapitalization clearly singled out the sickly banks. Standard Chartered, HSBC, and Barclays could raise private capital, whereas Lloyds/HBOS and RBS took state capital and donned the scarlet B. The latter two banks had to write down large sums; the government's book loss a year later was £18 billion and rose to £32 billion in 2012.³⁶

The second reason the US intervention was better for the government is that it required healthy banks to share some of the fiscal burden, while the British program did not. Whether the burden is shared depends also on how the government tries to get its money back. One way is to charge proportionally to the amount of help. This approach counters "moral hazard" by punishing those banks that erred and encourages prudent behavior in the future. In practice, this means asking a high dividend in exchange for state capital and a risk-adjusted fee for guarantees. Risk-adjusted fees compensate the government for taking more risk guaranteeing debt for a risky bank than guaranteeing the debt of a solid bank. The effect, however, is to leave the government and taxpayers worse off. The reason is that the owner of the sickly banks is the government itself; through recapitalizations it invested heavily in those banks. Charging sick banks heavily for interventions just means that the government charges itself.

Exactly such an outcome took place in the British case. The government started out demanding a 12 percent dividend from RBS and Lloyds/HBOS. Only four months later, the government put more capital into the banks through its Asset Protection Scheme, and as of this writing it is still in the red from its investments in these two banks.

The US government chose another way to get its money back. It included all large banks and charged all of them—regardless of how risky they were—a low, standard fee for debt guarantees and capital injections. At the same time, however, the government demanded warrants, which allowed it during the next ten years to buy more shares at the price it had paid at the end of September 2008. In other words, the government could get its money back when the banks recovered from crisis. This provided help for sickly banks and obliged the healthy ones to reimburse the government for the interventions.

Table 2. Design Features of the American and British Bailout Plans.

		United States	United Kingdom
Participation in state recapitalizations: Self-selection or not?	Design	Required participation of major banks	Voluntary participation of major banks
	Effect	All nine major banks participate (including healthy banks Wells Fargo, JP Morgan)	Self-selection of sickest banks only (RBS, Lloyds/HBOS)
Funding of recapitalizations and guarantees: Government subsidy or cross-subsidy from banks?	Design	Low, flat upfront fees paired with long-term warrants	Steep upfront fees without warrants; risk-based fees for guarantees
	Effect	Generous help for sick banks; tough terms for healthy and lucky banks	High nominal charges for rescued, mostly state-owned banks
	Gains / losses	\$8-10bn gain from TARP's bank part (excl. auto bailout & mortgage relief) of which \$4bn come from sales of warrants from JP Morgan, Wells Fargo, and Goldman Sachs	£12bn (\$14bn) currently estimated losses; current book loss of £32bn (\$51bn) from RBS, Lloyds/HBOS

Because of this structure, the US government's Troubled Asset Relief Program (TARP) investments made money for the taxpayers, even though it developed a generous rescue plan. The government implemented a systemic rescue package, including guarantees and Fed liquidity, which supported the whole sector. According to some calculations, the interventions generated a net benefit to the US economy of between \$86 and \$109 billion.³⁷ With its payment structure—capital injections and warrants—the US government could recoup its money. It allowed the government to internalize some of the positive external effect of its rescue program. Getting the warrants in the nine major banks generated over \$4 billion, and \$3 billion of that sum was paid by banks that did not need capital injections: Wells Fargo, JP Morgan, and Goldman Sachs.³⁸

Table 2 summarizes the differences in policy design between the two countries. It is worth underlining that, despite these dissimilar policy designs, both governments have publicly acknowledged that they had exactly the same objective: to prevent the implosion of the banking system and to have all banks in the program. Alistair Darling, the British chancellor of the exchequer, explained the goal of his government frankly: “The key was to get capital into the banks that needed it—primarily RBS and HBOS, which was now part of the Lloyd’s group—but at the same time to persuade a bank like HSBC, which had no obvious need for more capital, to join the scheme.”³⁹ US Treasury Secretary Paulson was similarly concerned with getting all large banks to participate in the plan, so as to avoid the bailout as being stigmatizing.⁴⁰

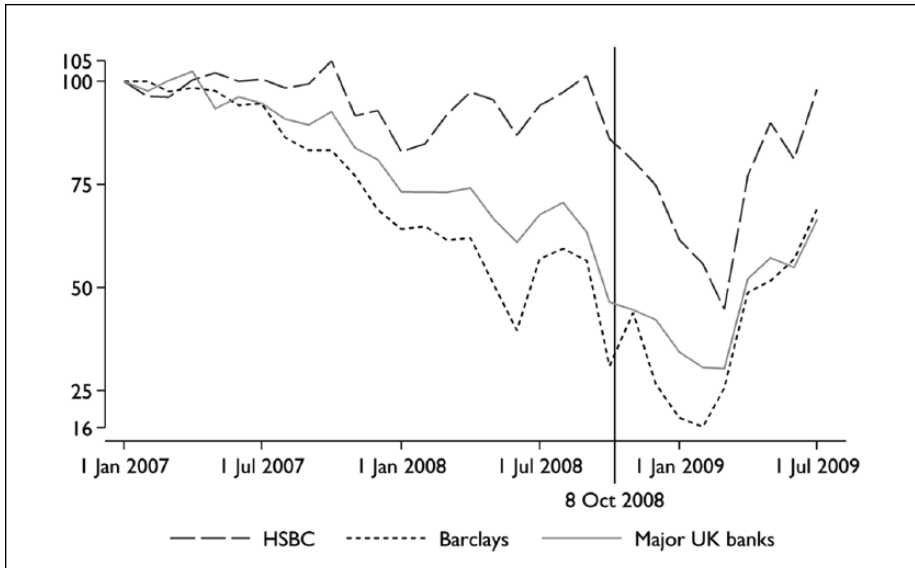


Figure 1. Monthly Market Capitalization of British Banks.

Note: Included are Alliance & Leicester, Barclays, Bradford & Bingley, HSBC, Lloyds/HBOS, RBS, and Standard Chartered. Source: Orbis–Bureau Van Dijk.

Bank Power: Structural or Instrumental? Automatic or Strategic?

Both the United Kingdom and the United States had banks that were too big to fail, and there were recalcitrant healthy banks in both countries that preferred not to receive equity injections from the state: Wells Fargo and JP Morgan in the United States, and HSBC in the United Kingdom. Why were the British banks, and in particular HSBC, able to keep policymakers from imposing their preferred solution, while the US banks were not? In this section we show that their financial health was necessary to resist the government, but not sufficient to explain this outcome. Instead, we show that even healthy banks will not defy their regulator, if a large proportion of their business lies within the jurisdiction of that regulator. Their structural dependence on the regulator is a weakness, one that the state can exploit in negotiation with healthy banks.

HSBC, JP Morgan, and Wells Fargo were all financially sound banks during the financial crisis. Figure 1 displays HSBC's monthly market capitalization relative to the British banking sector for the thirty months from the beginning of 2007. The crisis left the stocks of most banks battered. Compared to the market capitalization in January 2007, banks had lost on average about 45 percent of their market value in October 2008. HSBC saw its capitalization drop by only 14 percent. HSBC profited from a broad deposit base, which provided stable liquidity during the crisis, and from its business in Asia.

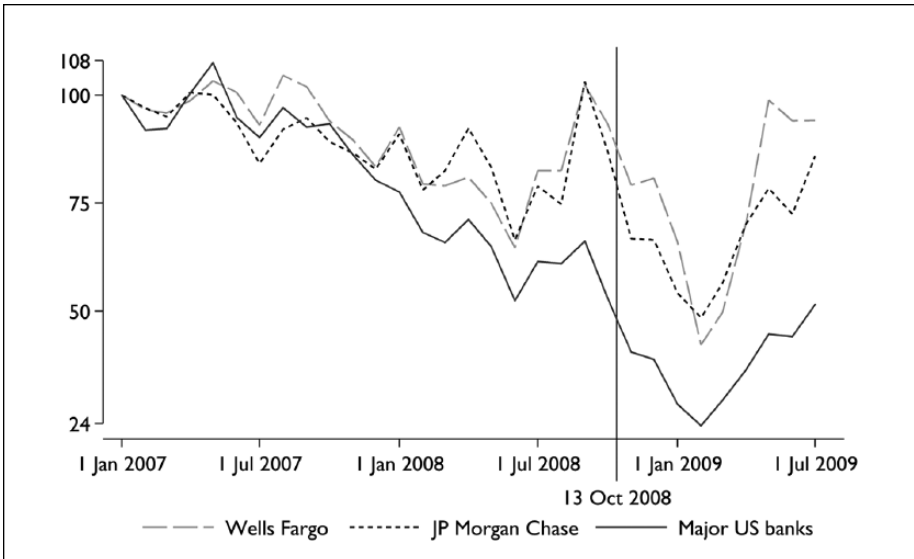


Figure 2. Monthly Market Capitalization of Major US banks.

Note: Included are Bank of America, Citi Group, Goldman Sachs, JP Morgan Chase, Merrill Lynch, NYB Mellon, State Street, and Wells Fargo. Source: Orbis–Bureau Van Dijk.

Wells Fargo and JP Morgan, like HSBC, were healthier than other big banks. Unlike most of its peers, which got into trouble in the mortgage market, Wells Fargo had been strict in its lending standards and had kept toxic housing assets off its balance sheet. Figure 2 illustrates the capitalization of Wells Fargo in comparison to the major banks still in business by the end of September. Wells Fargo's market value was down only 7 percent from its pre-crisis level, and JP Morgan was down 13 percent; the values of the other large banks had dropped by 47 percent.

There was no difference between the financial health of HSBC, JP Morgan, and Wells Fargo. All three banks had stable sources of liquidity. However, they drew on different markets. In 2005–2007, HSBC generated only about 20 percent of its profits at home in Britain, even though it was a dominant player in the concentrated British banking market. Only the much smaller bank Standard Chartered made a lower proportion of its money from outside the UK (Figure 3). Even though HSBC operates out of London, the bank doesn't depend on the British market. It makes more profit in Hong Kong than in the United Kingdom.⁴¹

In contrast, as Figure 4 illustrates, Wells Fargo operated solely in the US market. Even after Wells Fargo acquired additional international business through the purchase of Wachovia in 2008, 95 percent of its loans were to American debtors.⁴² JP Morgan's business looks similar in this respect, with 75 percent coming from the United States. Figure 3 shows how much revenue these and other major banks make in their respective domestic market, and highlights how—compared to HSBC—Wells Fargo and JP Morgan depend more on their domestic market.

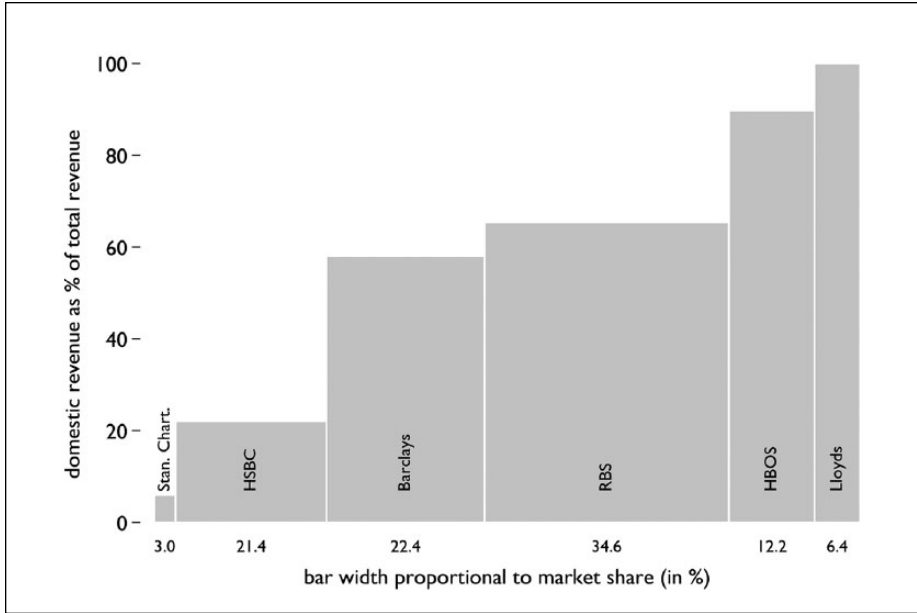


Figure 3. UK Bank Revenues from the Domestic Market.
 Note: Data refer to domestic revenue in 2005-2007; for Barclays, HBOS, HSBC, and Standard Chartered, they refer to domestic income. Source: Banks' annual reports.

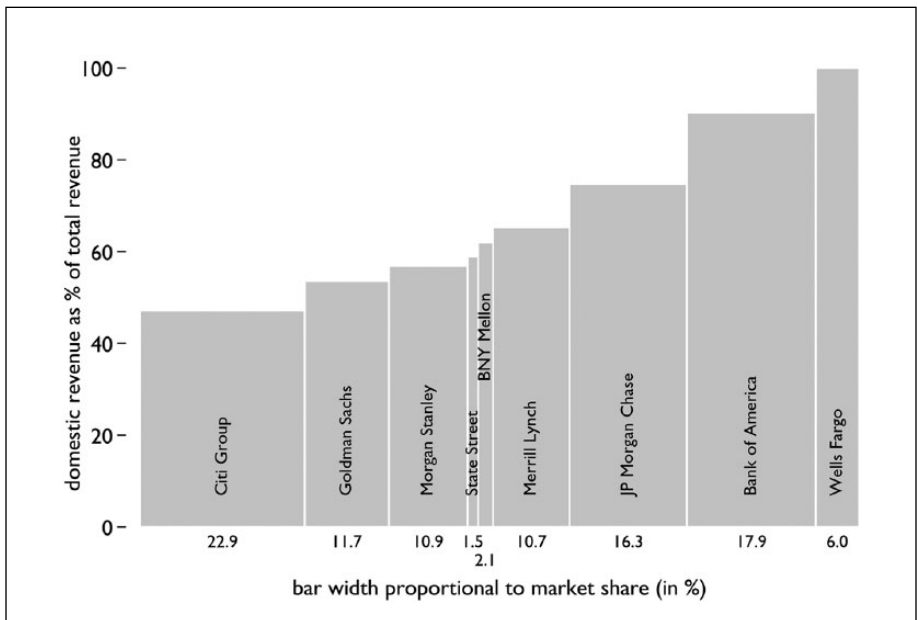


Figure 4. US Bank Revenues from the Domestic Market.
 Note: Data refer to domestic revenue in 2005-2007. Source: Banks' annual reports.

This structural situation meant US regulators could make Wells Fargo and JP Morgan an offer they could not refuse. In the decisive meeting between the CEOs of the nine major banks and senior US government officials—Paulson, Bernanke, Tim Geithner of the New York Fed, Sheila Bair of the FDIC, and Comptroller of the Currency John Dugan—this regulatory threat was explicit, and it was repeated. In the talking points prepared for the meeting on October 13, 2008, recalcitrant banks got this message: “If a capital infusion is not appealing, you should be aware that your regulator will require it in any circumstance.”⁴³ After Paulson’s presentation of the plan, which reiterated the unpleasant consequences of not accepting the aid, the CEO of Wells Fargo complained to the other CEOs “Why am I in this room, talking about bailing you out?” Paulson’s response was a threat of regulatory consequences: “Your regulator is sitting right there [pointing to the head of the FDIC and the comptroller of the currency]. And you’re going to get a call tomorrow telling you you’re undercapitalized and that you won’t be able to raise money in the private markets.”⁴⁴ This is an explicit threat from a regulator against a financially healthy bank. The regulator could make trouble for the bank in unsettled markets—the regulator knew it, and the bank’s CEO knew it.

In contrast, UK officials could not make this threat. The UK government wanted to include HSBC in the recapitalization plan, but HSBC refused. Multiple figures associated with the bailout repeated in interviews with us that the UK government had no tools to force HSBC to take state capital, even though it was the government’s first preference. A senior government minister said, “The British government does not have the power simply to acquire capital in somebody else’s bank.... You can’t insist, on an innocent third party, where [the state] is going to take a great wedge of your bank off you.” Another senior UK government advisor said the same thing. “We couldn’t force HSBC.... They made clear that we had no power, and if we tried it they would take us to court.” The United States has a court system too, and banks have never been averse to using it to protect their interests. Banks can only fight the government, however, when they do not view a hostile relationship with bank regulators as too costly. HSBC’s threat to take the government to court was the sort of threat that only a bank unconcerned with its future relationship with national regulators could afford to make.

HSBC’s refusal was a deliberate act. British policymakers had not foreseen these objections and automatically designed a recapitalization that excluded HSBC, which is how automatic structural power would work. Yet neither was HSBC’s calculated move dependent on lobbying or influence bought with the executive. As the phone logs and memoirs of Hank Paulson and Alistair Darling made clear, US banks had much more frequent access to the top of the Treasury than did UK banks.⁴⁵ The conventional story, according to which large US banks have developed strong instrumental lobbying ties to officials, is borne out in our research. Moreover, though we cannot with any reliability observe automatic instrumental power, the US Treasury Secretary was a peer of the CEOs of the large American banks, as his former job was CEO of Goldman Sachs. US banks had substantial instrumental power. But they lacked structural power that would have given them the credibility to stand up to Paulson’s regulatory threat.

HSBC's action was intentional, but it was a product of its structural position in the market, not the result of its lobbying access. HSBC made clear to the UK government that it neither wanted nor needed state recapitalization, and that it would sue the government if challenged. The bank then reinforced that case by refusing to cooperate with the government. The former Deputy Governor Sir John Gieve of the Bank of England characterized their response to the government this way: "HSBC said effectively: 'We've got no problem in financing our business. We've got this massive deposit collection business in the Far East; we may have made massive losses in the US... but actually we are perfectly solvent; the world believes we're solvent; we don't need any money.' They also resisted the implication that their whole group was dependent on the UK authorities and made a point of sending their UK man, ... not their chief executive or chairman—to meetings with the Chancellor."⁴⁶ This behavior contrasts with the alacrity with which the CEOs of the nine largest US banks showed up for the October 13 meeting when Paulson summoned them only the Sunday night before the Monday meeting.

HSBC was not the only large bank to avoid state capitalizations. Barclays raised private capital from Qatar and Abu Dhabi. Unlike HSBC, Barclays relied substantially on the British domestic market (see Figure 3). The actions of Barclays do not contradict our argument, as can be observed from the sequence of its actions. Barclays was financially weak and therefore lacked the capacity to block a government plan for mandatory recapitalizations (see Figure 1). Barclays never wanted state capital, but when the government negotiated the plan, it was unsure whether it could raise capital privately. Once HSBC quickly announced it would not take state capital,⁴⁷ Barclays made clear it would go to extraordinary lengths to refinance itself through its shareholders rather than taking state money.⁴⁸ Barclays kept the option of state capital open until, a few days later, it succeeded in raising the required capital. By then, the government had announced its debt guarantee programs, which eased funding for Barclays and helped the bank to convince investors to provide capital. Reflecting on Barclays' negotiation, John Gieve from the Bank of England said: "[Barclays] played us very cleverly, in that they managed to negotiate a sum of capital, which they had to raise and that they could raise—from their friends in Singapore and the Middle East and so on. And thereby pass our test, while still getting the benefit of the overall government guarantee." Barclays avoided state recapitalizations, but without HSBC's lead, it would have had to accept capital from the government.

The case of Barclays is also instructive on the role of the government's pricing of state capital. The steep nominal pricing of 12 percent by the British government may give rise to the objection that rejection of the deal by healthy British banks was endogenous. That is, British banks may have only refused to cooperate because the government—mistakenly—demanded too high a price. Had Darling asked for a coupon of only 5 percent as did Paulson, would the British banks have participated in the program? The available evidence suggests not. First, the banks as well as the government found pricing to be a secondary issue. Barclays eschewed state capital but accepted even costlier private capital. Barclays sold its shares at a higher discount than the government had demanded and gave additional warrants to its investors.⁴⁹ On the other

side of the negotiation table, pricing seemed not to be the top issue for policymakers either. For Darling it was important to implement a recapitalization program, not how much banks would have to pay.⁵⁰ Second, the nominal pricing of coupons differed, but the overall pricing of capital for healthy banks was actually similar. In contrast to the British plan, the American plan included warrants. These increased the costs of state capital, especially for the healthier banks that would recover quickly from the crisis. For this reason, the pricing was comparable and the rescue plans did not give HSBC any stronger reason to resist the program than JP Morgan or Wells Fargo.

This examination of policymaking during the crisis of 2008 demonstrates that strategic instrumental power cannot explain the variation in policy design between the United States and the United Kingdom. Instead the different policies resulted from the outside option open to HSBC, in its negotiations with its regulators, because of its structural position as a global bank with a deep deposit base in external markets. This is an exercise of what we have called strategic structural power. However, we also want to consider the possibility that the difference in bailout policies might have been a product of lobbying during a prior time period. That is, that the policy adopted at time t was only possible because of the exercise of strategic instrumental power at time $t-1$.⁵¹

It would be foolish to deny the abundant evidence that American and British banks used their growing economic resources to advocate politically for financial deregulation—and that this financial deregulation played some role in creating banks that were “too big to fail.”⁵² However, this general finding holds for both the United Kingdom and the United States. And of the two, the United States is widely regarded as the more captured system with respect to financial regulation.⁵³ An alternative hypothesis based on the exercise of strategic instrumental power at time $t-1$ to account for the variation we observe at time t would have to show how past lobbying in Britain allowed HSBC to frustrate government attempts to adopt forced recapitalizations, while foreclosing that possibility to American banks. We can think of no such plausible account. A lobbying account for an outcome in which healthy banks in the United States do worse than healthy banks in the United Kingdom is difficult to square with the strong evidence that the instrumental power of US financial institutions has exceeded that of their British counterparts since the late 1990s.

There is a “revolving door” alternative hypothesis that we should also consider. The fluid labor market between regulators in Washington and banks in Wall Street might have given US policymakers greater expertise about the sector, and thus accounted for their ability to adopt their preferred policy. The British civil service prioritizes the recruitment of generalists rather than specialists with either PhDs in economics or private experience in finance.⁵⁴ This could handicap the government in bargaining with banks. British banks, in this account, would be able to play on their expertise to drive a better deal from Treasury mandarins with limited experience of the actual functioning of banking than would occur in the United States. Indeed, this lack of experience in finance was reinforced in the political sphere, where Hank Paulson, the ex-CEO of Goldman Sachs, clearly had a large informational advantage over his counterpart in the United Kingdom.

The UK Treasury assuredly lacked some of the bank-specific expertise enjoyed by the US Treasury. However, the Labour government recognized this shortcoming and elevated Paul Myners, a finance veteran, to the House of Lords so that he could be appointed Financial Services Secretary. It was his job to negotiate directly with the banks. Alistair Darling noted that Myners' "expertise and experience were invaluable."⁵⁵ Prime Minister Gordon Brown relied heavily on Shriti Vadera, a former investment banker at UBS Warburg. The government also brought private sector consultants into its negotiating team when devising policy. One of them told us in an interview that Vadera's economic and political expertise was instrumental in helping the government get the size of the bailout right so as to satisfy both political and economic constraints: "this is why we were lucky we had Shriti Vadera, because we had someone who was able to have the credibility to say, 'This is the number.' And people rallied behind it." We find no evidence that a lack of expertise on either the British or American side had anything to do with the policies chosen.

Comparative Evidence beyond the United Kingdom and the United States

Theories based on the use of instrumental power fare poorly in explaining the variation between the US and British policies, either at the time or bailout or as a prior cause that allowed the bailouts to take the form they did. We have shown that an account centered on the structural power exercised by HSBC provides the best explanation of these outcomes. In this section we consider comparative evidence from France and Germany, to see if the same dynamic holds in other cases.

In addition to expanding our number of observations, France and Germany provide useful empirical leverage on bank bailouts, because their inclusion allows us to consider two additional alternative hypotheses. The first is the economic concentration of the banking sector. A smaller number of banks (as in the concentrated UK sector) might coordinate more easily to resist state pressure than a larger number of banks (as involved in the US case). France has a highly concentrated bank sector, like the UK, with six banks accounting for 80 percent of bank lending. Germany has a less concentrated and more heterogeneous banking sector that includes private banks, cooperative banks, and public savings banks, much like the US banking sector. If banking concentration were important, we would expect to observe similar outcomes in the French and British cases and in the US and German cases.

We are also interested in considering another alternative hypothesis: the government of a medium-sized economy might face harder spending constraints than its counterpart in a large economy. The United States and the United Kingdom have independent central banks, and they can both print their own money. Interview subjects in Britain told us they were aware that they could create the money to fund a big bailout if they had to. But what if there is a logic under which the United Kingdom, a medium-sized economy, felt more pressure to keep the bailout small—so as to avoid being labeled a sovereign debt risk by international bond markets? We cannot test this hypothesis directly, but we can compare the dynamics of bank-state interaction in the

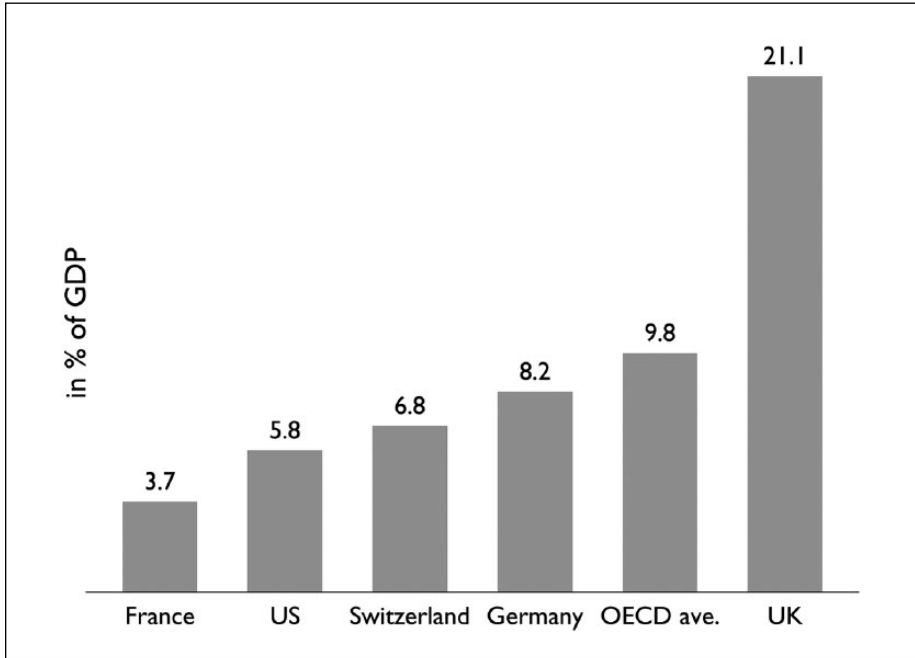


Figure 5. Banking Support across Countries.

Note: Following the accounting methodology of the European Commission, total banking support is weighted by the use of different instruments, 15 percent for credit guarantees, 70 percent for asset relief, and 100 percent for recapitalizations (for both schemes and ad hoc measures).⁵⁶

United Kingdom with that in two other European states of similar size: France and Germany. These two latter countries, as part of the Eurozone, lack the capacity to print their own money, and so should theoretically be more constrained than Britain. The data in Figure 5 suggest that whatever motivated British bailout policy, it was not fiscal restraint: the UK spent far more on the bailouts, as a proportion of GDP, than did governments in the similarly sized French and German economies.

France and Germany experienced a crisis similar to that in the United Kingdom and the United States. The Lehman collapse affected the whole banking sector, and governments responded with big rescue packages in early October 2008. The French government injected capital in all major banks and avoided a loss of taxpayer money, as in the US case. The German government supported the banks with a voluntary program, which funneled state capital to the few worst-off banks, and much like the British bailout, this plan generated large losses for the state. Neither the size of the economy nor the concentration of the banking sector can explain this difference. These economies are similar: the two banking sectors are of equal size, and they contribute to the same degree to the economy (financial service value added is 31 percent in Germany, 34 percent in France). Instead, the differential dependence of banks on the state explains the difference.

In Germany, industry-wide recapitalizations ran into the resistance of Deutsche Bank. Deutsche is Germany's biggest bank and, it has moved away from only supporting German business, branching out internationally. In 2007, it generated only 27 percent of its income in Germany. Its financial health and the implicit threat to leave killed the possibility of an industry-wide initiative. Like his counterpart at HSBC, Deutsche Bank CEO Josef Ackermann publicly torpedoed a collective solution by excluding Deutsche Bank from it, saying he would feel ashamed if Deutsche had to admit it needed money from the taxpayers.⁵⁷ Since accepting state capital meant admitting failure and entailed a number of restrictions, only the weakest banks participated in the program, namely Hypo Real Estate, West LB, and Commerzbank. And the interventions in those banks left the Germany taxpayers with large losses.

The French government faced no resistance from a large, international bank. The major French banks are solidly based in the French market. The strongest opposition came from a healthy bank, *Crédit Mutuel*, which did not need the extra capital. But *Crédit Mutuel* is decidedly a domestic bank: 94 percent its income comes from France. *Crédit Mutuel* found itself in exactly the same position as Wells Fargo in the United States, as summarized in an interview reported by Cornelia Woll: "The four banks had roughly the same interest, the four biggest in fact. And the fifth, which was also the smallest, was really in perfect health, but it got its arm twisted."⁵⁸ The French government brought the banks together to establish the SFEF, a common fund for liquidity support, and all six major banks accepted state capital. This plan stabilized the banking sector and created a small profit for the French government.

There is no doubt that banks in France enjoy a close relationship with the state. Indeed, even more than the United States, scholars of French finance argue that the automatic instrumental power of French banks—the identity of interests between bank CEOs and the senior policymakers—is uniquely high. In the words of Jabko and Massoc:

What sets France apart [from the US and UK] is that this privileged access rests on a sociologically stable and homogeneous elite of public and private actors. The social circles and career trajectories of private bankers and high-ranking state officials do not just intersect on occasion, but are almost indistinguishable from each other.⁵⁹

These bankers were intimately involved with the drafting of the legislation bailing out French banks. But because the only healthy bank, *Crédit Mutuel*, was dependent on the domestic market, it did not have the structural power of HSBC in the United Kingdom to exclude itself from the collective French solution.

German banks have substantial instrumental influence on the German government. But the instrumental power of German banks is weaker than those of banks in France or in the United States: there is not the same uniformity of educational background that unites banks and the state in France, nor do German banks have preferential access to government officials provided by campaign contributions, as in the United States. Lobbying organizations of German banks follow the banking sector's division of cooperative, savings, and commercial banks. And the association of German commercial banks often struggles over internal tensions.⁶⁰ The empirical record of the German bailout policy shows that banks were divided, and in the face of these divisions the

Table 3. Bank Power and Taxpayer Profits.

	Strategic Structural Power Large Banks	Strategic Instrumental Power Large Banks	Industry-Wide Plan?	Profit to Taxpayer
US	Low (JP Morgan, Wells Fargo)	High	Yes	\$8-10 billion
France	Low (BNP Paribas, Crédit Mutuel)	High	Yes	\$1 billion
UK	High (HSBC)	High	No	-\$14 billion
Germany	High (Deutsche Bank)	Medium	No	-\$55 billion

Note: Classification of structural power of healthy large banks based on share of income from domestic business: JP Morgan (75%), Wells Fargo (100%), BNP Paribas (47%), Deutsche Bank (27%), HSBC (22%). Income shares taken from banks' annual reports; taxpayer profit taken from CBO, May 2013⁶² and Eurostat, Supplementary table for the financial crisis, October 2013. The Eurostat figures denote the accumulated profit to the general government from 2007-2012 and represent a preliminary estimate of the total costs, which ultimately depend on the final selling price of assets. The US CBO figures include the outcome for the overall financial intervention of the TARP, excluding the auto industry bailout and mortgage relief.

German government eventually developed a bank support program without much input from the banks.⁶¹ Thus, in comparative terms, we classify the use of strategic instrumental power by German banks as lower than in the other three cases. It would contradict the available evidence to say that the strong lobbying capacity of German banks accounted for the costly German bailout program.

Table 3 arrays the outcomes observed across the four cases. In all four countries the fall of Lehman Brothers led to substantial contact between senior bankers and senior policymakers. The German banking sector had the most heterogeneous interests, which compromised its lobbying capacity, so we classify it as having medium instrumental power. As is clear from the table, though, instrumental power is irrelevant to the outcomes observed. Where large banks exercised strategic structural power in negotiations with the government—because most of their revenue came from other jurisdictions—those banks were able to prevent governments from imposing an industry-wide solution. That HSBC and Deutsche Bank were able to overpower their respective governments was costly to British and German taxpayers, as the final column of Table 3 makes clear. In all four cases large banks were bailed out. This is an indicator of the central place that finance occupies in these economies. But our interest as social scientists lies in explaining consequential variations in policy design across countries. To do so requires putting analytical attention on the way in which the structural power of banks can be used strategically, not merely automatically.

Conclusion

Large banks are central to the functioning of financial systems, and when their failure risks bringing down the entire financial edifice, the structural position of these banks

makes a bailout the most likely outcome. That is a feature of capitalism generally, not just American capitalism. We observe these bailouts in countries across the industrialized world. Our analysis of bailouts in four of the world's six largest economies demonstrates that the strategic exercise of structural power was a root cause of variation in the form of the bailouts chosen. After the fall of Lehman Brothers, the United Kingdom and Germany, like the United States and France, had to prevent their vulnerable banks from imploding. Yet the United Kingdom and Germany failed to force their preferred terms on the largest banks, because HSBC and Deutsche Bank were insufficiently dependent on domestic markets. Neither British nor German policymakers could pursue their optimal policy. Governments in the United States and France were in a stronger structural position, vis-à-vis their large banks, than were governments in the United Kingdom and Germany. American and French governments got a better policy deal from their large banks, in that they were able to capture more of the upside of healthy banks for taxpayers.

Our analysis runs counter to virtually all accounts of the US political economy, post-crisis. There are two reasons this literature has provided an incomplete account of the role of bank power in explaining bailout policies. First, most analysis of the US political economy does not situate the case in a comparative framework. Without embedding arguments about political power of capitalists in the United States in a comparative analysis of the political power of capitalists in democratic capitalism, it is impossible to sort out the effects of capitalism, in which bankers are almost always privileged, from those of the specific privileges afforded to bankers in the US political economy.

Second, existing work has focused almost entirely on the way in which US financiers “buy” influence—or in other words, on the strategic exercise of instrumental power.⁶³ We have shown that structural power can fruitfully be reincorporated into political analysis not only as a resource that acts automatically in the heads of politicians, but also as a resource on which banks draw deliberately in bargaining with governments. It is different from lobbying power. Lobbying power is about the access of banks to policymakers and the expertise their lobbying apparatus can mobilize. These features were irrelevant to the course of the bailouts in these four cases. Moreover, the ability to defy regulators, which was crucial to the strategy pursued by HSBC but foreclosed to JP Morgan and Wells Fargo, was a product of their *strategic* structural power—that is, of their deliberate use of their role in the economy as a resource in bargaining with the government.

Our theoretical innovation in this article is to reanimate the study of structural power by showing how business can use it as a strategic resource, not merely as an automatic threat of disinvestment that requires no agency on the part of business firms. This innovation, as remarked earlier, represents a return to earlier notions of the concept, which did not confine structural power to an ontology in which it is all structure and no agency.

We anticipate three sorts of challenges to our proposed conceptualization of structural power as a strategic resource. The first is that, if this power is really obvious and structural, why does it need to be used strategically at all? Why do politicians simply

not adjust their expectations accordingly and automatically make the best offer they know they can get their banks to accept? Such an objection can only come from a scholar who stood at great distance from the uncertainty that surrounded the bank bailouts of 2008. Policymakers and bankers were highly uncertain about each other's intentions and resources. The British government tried to achieve its best solution, which involved including all banks in the recapitalization agreement, but only then did policymakers discover that HSBC would refuse, and that policymakers could not credibly threaten the bank. Likewise, US policymakers were not certain, going into the meeting with the nine leading bank CEOs, that all banks would accept the deal. So they marshaled their regulatory might and personnel to remind the banks of their dependence on US regulators. To insist that structural power has to take place only in the heads of politicians, as automatic adjustment, is to claim that structural power cannot be invoked in negotiations. This is an untenable theoretical proposition. Structural power is entirely consistent with deliberate political action.

We are not the only scholars to argue that structural power can require the use of agency.⁶⁴ And it is from this theoretical position, largely occupied by constructivist scholars, that we anticipate two other potential objections. First, if structural power can be strategically deployed, and if instrumental power can have automatic features, then does any useful distinction exist between structural and instrumental power? "Being instrumentally powerful can make business appear structurally powerful," as Hindmoor and McGeechan put it, calling into question the analytical utility of the distinction.⁶⁵ Second, as Stephen Bell has observed, theories of structural power require greater attention to the way in which politicians interpret that power, and how the perceptions of politicians and the public can change over time, thus changing the structural power that automatically accrues to business.⁶⁶ Thus, potentially all structural power involves the use of strategic action.

The original distinction between business power as a resource acquired through lobbying, on the one hand, and business power as a resource that accrues to firms because of their position in the economy, on the other, remains a theoretical difference with real-world policy implications. Political scientists need to put more attention on this distinction, not less, because it involves two different views of how power is consequential in politics. According to the lobbying view, banks are powerful because they can buy the best lawyers and lobbyists to defend their interests.⁶⁷ Political debates animated by this perspective focus, for example, on the laws regulating spending in politics. The structural view, by contrast, focuses attention on questions regulating the size of banks, which can make them too big to fail. It also highlights the importance of international cooperation, through which governments can try to build international rules that limit the ability of large banks to escape regulatory scrutiny anywhere.⁶⁸

As for the argument that even the automatic structural power of business is always in part constructed by agents in the world: we agree. What goes on in the minds of politicians, and what they take as given in assuming business responses to tax policy, is certainly a question of interpretation, not simply an objective fact given unambiguously by economic structure.⁶⁹ Our concern with this approach is largely methodological, because it involves empirically assessing what is going on inside the heads of

policymakers. Automatic structural power changes when conditions change, as politicians alter their evaluation of the credibility of a threat of business disinvestment in the wake of different economic events. But even so, its short-term function is largely automatic and unobservable empirically; only its policy consequences can be observed.

The strategic use of structural power is conceptually distinct from the automatic use of business power. Strategic structural power can be observed through its effect in negotiations, of which there is an empirical record. It can be readily demonstrated through process-tracing that is embedded in an analysis of market position and of bank-government interaction. As such, it is a distinction that will allow other scholars to test our propositions about the dependence of companies on national regulatory authority in a globalized economy. This analytical innovation does not exclude other scholars from productively exploring the way in which the possibility of disinvestment is constructed through public discourse. But our approach may be easier to observe in practice.

Substantively, our analysis implies that large firms are empowered not only by the possibility of moving capital from one jurisdiction to another (the legal exit option), but also by the ability to absorb regulatory sanctioning costs in a given economy (the viable outside option). Where companies make much of their revenue in one country, those potential profits represent power in the hands of national regulatory authorities. The giants of American finance were well aware of the cost of not playing ball with a national regulator. Political scientists have paid extensive attention to the way in which the exit option makes mobile capital more powerful in political negotiations, and this has been the source of important insights.⁷⁰ Yet the possibility of mobility may be illusory when the costs of leaving are high. For example, an increasing number of economies—the European Union and Switzerland are only the most recent examples—have passed laws or initiatives that seek to regulate executive compensation. Large financial institutions routinely invoke the threat of exit from these jurisdictions in response, just as they did in the United States after the passage of new financial legislation adopting shareholder rights to vote on pay packages. The threatened exodus has yet to appear; moreover, it appears to have had little effect on lawmakers. When the United States and the European Union and Switzerland all adopt tough new regulations on executive pay, it is an open question whether financiers in these jurisdictions will be willing to follow up their threats to move to Asia.

Episodes such as the financial crisis of 2008 are rare political events. Because they open the possibility for such potential long-term damage, they reveal how state policymakers and powerful private interests bargain under time pressure and over high stakes. The instrumental power of financial institutions in these conditions is less important than their structural power. Large banks are privileged actors in all capitalist countries, but even privileged actors in an open economy must still contend with the costs that regulators can impose on them.

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