*Special Issue Article*

# Politics in the Interest of Capital: A Not-So-Organized Combat*

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## Abstract

In recent debates about inequality, many have pointed to the predominant position of the finance. This article highlights that structural power, not lobbying resources, are key to explaining variations across countries. It examines finance-government negotiations over national bank rescue schemes during the recent financial crisis. Given the structural power of finance, the variation in bank bailouts across countries cannot be explained by lobbying differences. Instead of observing organized interest intermediation, we can see that disorganization was crucial for the financial industry to get off the hook and let the government carry the burden of stabilizing the economy. Put differently, structural power is strongest when finance remains collectively inactive. In contrast to traditional accounts of the lobbying influence of finance, the comparison highlights that the lack of organization can have crucial redistributive consequences.

## Keywords

financial crisis, bailouts, lobbying, organized interests, banking, United States, Europe

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With the publications of Piketty's *Capital in the Twenty-First Century*[1] and Hacker and Pierson's *Winner-Take-All Politics*,[2] the politics of inequality have again become a central element of the social science research agenda. Although some may have brushed off the insights of Hacker and Pierson's work as relevant only to the United States, Piketty's research sheds doubt on such a perspective and urges us to provide comparative answers to the trends he has documented across advanced industrial societies. The financialization of advanced economies seems to play a crucial role across countries.[3] In both popular writing and scholarly analysis, finance is front and center in the transformation of market economies towards more unequal societies.[4]

Yet despite the general consensus that finance is powerful, there is little agreement about what this actually means. How does one industry influence politics, possibly against the interests of many citizens? Are the lobbying activities of the financial industry and their personal networks so pervasive that governments across countries cave in to their demands? Or do we need to look at more structural features, such as the importance of banks and the role of finance in the economy?

Comparing politics across countries highlights that the influence of the financial industry, albeit important everywhere, can create very different settings and choices. Examining how power operates is necessary to move beyond tautological statements that infer power from outcome.[5] However, a cross-country comparison introduces a lot of variation that makes studying the role of one stakeholder—the financial industry—very complex. Rather than explaining economic inequality over time and across countries, this article focuses on one policy decision made in several countries at roughly the same time: to bail out their financial industries at the height of the 2008 crisis. This tells us little about prior regulatory choices—how we got there in the first place—which may certainly have been affected by active lobbying of the financial industry. But it is one of the single most redistributive choices in recent history, and one that many have argued to be largely in favor of the financial industry. As such, it deserves an explanation of its own.

The article argues in favor of a structural account of the power of finance and counters analyses that focus too much on the concrete lobbying activities. A more structural perspective is relevant even in the United States, where lobbying is most developed, as I will show in engaging specifically with *Winner-Take-All-Politics*. I then discuss structural advantage more in detail and examine how it can vary across cases by analyzing bank bailouts in four European countries. Specifically, I demonstrate that structural advantage is not simply a material fact, as suggested by Marxist analysis or presumed in large-*N* studies that focus on economic indicators as proxies for power. Rather, structural advantage depends on perceptions, and it needs to be enacted in the course of negotiations. For bailout arrangements, this enactment hinged on the industry's capacity to remain inactive, which in turn coerced the government into action.

The article is divided in three parts. A first section discusses different conceptions of power that are relevant for the discussion. A second section examines the instrumental power of finance by examining recent studies of lobbying in the United States

and in Europe. A third section turns to bailout arrangements in Europe to examine how structural power translates into different policy outcomes.

## The Power of Finance

Barnett and Duvall have defined power as "the production, in and through social relations, of effects on actors that shape their capacity to control their fate."[6] What are the means that allow finance to shape crucial policy decisions, render governments paralyzed in times of crisis and affect the lives of citizens everywhere? These questions have been on the minds of many during the recent crisis and triggered popular movements such as "Occupy Wall Street."

Understanding the nature of financial power requires several distinctions. As Barnett and Duvall underline, accounts of power often share a shortcoming: they concentrate merely on the use of resources that allow an actor to get others to do what they otherwise would not. This type of power if classically labeled instrumental power. Although instrumental power is common, it can lead the analyst to an "exercise fallacy"—looking for power as observable action that causes a sequence of events—and a "vehicle fallacy"—reducing power to the instruments through which it operates.[7] As many social theorists have emphasized, power can work in many more subtle ways, shaping action in ways that may not appear as coercive or taking the form of decisions that are simply abandoned—so-called nondecisions.[8] This can happen by the structural advantage of one actor and can lead others to anticipate reactions and adjust their behavior accordingly.

Structural power operates through existing institutional arrangements that put certain actors in privileged positions, allowing them "to change the range of choices open to others without apparently putting pressure directly on them."[9] The structural power of business in politics has been analyzed extensively[10] and can easily be extended to the finance industry. Indeed, the financial crisis revived the structural power debate.[11] For the analysis of business power, Fairfield employs instrumental power to designate the use of political channels and resources to affect policy change, while structural power refers to effects induced by (potential) market decisions, which politicians try to anticipate.[12] Indeed, structural power generally refers to the influence business has through their capacity to withdraw investment and thus reduce levels of funding, production and employment, affecting overall economic growth. As a consequence, structural power has been measured by looking at the overall weight of a sector or more precisely at the degree of capital mobility.[13]

These pressures are familiar to comparative public policy analysts and are cited in many studies. The integration of markets creates pressures on social protection regimes if and when firms can relocate more easily than labor. The investment decisions of a variety of small private firms are sensitive to political signals concerning taxes, regulatory control, or other forms of government intervention, which can create a race to the bottom among political regimes that are in competition with one another for these investments. An increase in the indebtedness of a government makes it vulnerable to fluctuations in international financial markets, the signaling devices of rating agencies,

and other performance evaluations. Relying on the financial industry for economic growth makes government dependent upon the health of these institutions, which may also become too interconnected, too big, or too exposed to fail. These dynamics—capital flight, regulatory competition, dependence on the international financial market, and too-big-to-fail financial institutions—create problematic structures that put pressure on politicians regardless of their party affiliation. They also shape the discourse and the political debates within which policy reforms can take place.

To be sure, instrumental power and structural power interact. The lobbying of firms can help them to expand their sector and thus their economic importance, which makes their possible exit a greater political stake. Inversely, politicians are more likely to facilitate the political access of firms that occupy a central role in the economy.[14] Still, accounts of policy change tend to privilege one of the two explanations. This becomes particularly pressing when trying to detangle events leading up to specific decisions and explaining variation across space and time. Hacker and Pierson,[15] for example write: "The prospect of actuality of disinvestment . . . cannot tell governments what to do. The extent to which business influences specific policy choices will be a function of instrumental rather than structural power."

Despite their recognition of the importance of structural power, they suggest along with many other analysts that agency in politics travels through instrumental power. Put differently, the influence of finance depends on concrete lobbying efforts of the financial industry, and many have focused their attention on Wall Street in the United States.[16] Such an account, where structural power alone is insufficient to explain policy change, is reflected in Hacker and Pierson's analysis of US politics as "organized combat."[17] Focusing on interest group politics, the authors encourage us to look beyond electoral politics and to analyze policy change as the result of coordinated and prolonged influence peddling.

## Politics as Not-So-Organized Combat

There is much to commend in Hacker and Pierson's analysis and they are certainly right in urging us to move beyond electoral dynamics.[18] In so doing, they have made a major contribution to increasing our awareness of the politics of inequality in the United States and beyond: they help us focus on what is actually produced. Yet the notion of organized combat brings too much emphasis on organization and concrete action. The authors insist that "gaining and using control over political authority requires organization,"[19] and underline that influencing policy over time necessitates exceptional resources in order to overcome collective action problems and coordinate with others, develop expertise, focus sustained attention, and operate across interlinked domains. According to them, it is therefore paramount to understand how groups mobilize to influence government action over time.

In developing this argument, Hacker and Pierson rely on classical interest group theory, which views lobbying as an exchange that can ultimately produce "capture."[20] Policies will be biased in favor of the special interests that wield the most resources and have the most intense preferences.[21] These groups lobby politicians across the political spectrum, and the exertion of this pressure explains policy evolution even

when no particular influence is visible. This happens first and foremost because organized groups have the capacity to shape the policy agenda by keeping contested issues off the table and encouraging symbolic actions instead of substantial ones.[22] This influence is particularly effective when public salience is low.[23] Second, organized groups can prevent the updating of policies they consider to be harmful, decreasing their impact over time. Although this does not appear to require political action, such policy drift results from groups pressuring policymakers to "simply sit on their hands."[24] This invisible type of power has been labeled the "second face of power" by Lukes and is based on what Bachrach and Baratz have termed "nondecisions."[25] Organized groups are thus pivotal in Hacker and Pierson's account, even if the general public or a superficial observer cannot detect their intervention.

## *The Decline of Organized Groups*

There is certainly a lot of evidence that lobbying, broadly defined, plays a major role in US politics and should be a necessary part of any analysis of policy conflict. Yet identifying such activities is insufficient to demonstrate their causal influence. Moreover, we now have increasing scientific evidence that organized groups are less central than often assumed. The decline of organized groups may seem striking, given that the number of lobbyists in Washington and the amount of resources spent on campaign finance and lobbying have exploded over time. [26] But it is important to distinguish the omnipresence of private money in US politics from the organization of interest groups, and from their potential influence over policies. To be sure, financial resources are essential to gain access to US politics, and this necessarily creates important biases in favor of the entities with the most cash. However, this should not lead us to simply assume that those interests are well coordinated. Coordination, which is the central feature of organized groups, has actually been in sharp decline in US politics.

To begin with, centrally organized groups have always been more fragmented in the United States than in other countries, even on the business side. One will search in vain for a comprehensive capitalist organization willing or able to act as a counterpart to the American labor association of the AFL-CIO. Rather, following Gourevitch's analysis of the politics of economic crises, [27] analysts in political economy have focused on the fluid coalitions that form around individual issues.[28] But the cohesion of even these coalitions is questionable. In a recent book, Mizruchi provides a detailed historical account of the fracturing of the American corporate elite.[29] He shows that corporate leaders were most organized and influential in the 1960s and 1970s, as represented through organizations such as the Business Roundtable and the Committee for Economic Development. Under the considerable political pressure of the postwar consensus, corporate leaders were moderate in their contributions during this time, but they also encouraged tax cuts and deregulation.[30] Ironically, their success resulted in the breaking apart of business coordination. With a weakening of the labor movement and the transformation of corporate governance toward shareholder value, corporate leaders retreated from political coalitions and focused exclusively on individual benefits.[31]

This trend was further accelerated by the decline of commercial banks, whose boardrooms had been the meeting place for the leaders of the corporate community. With the rise of alternative sources of funding, banks lost their centrality in the American corporate network, which experienced a sharp drop in cohesion.[32] Between the early 1980s and the mid-1990s, the number of directors holding simultaneous seats on several boards (so-called interlocks) declined by 15 to 20 percent;[33] between 2000 and 2010, it dropped by more than 30 percent.[34] The "inner circle" identified by Useem in the 1980s dissolved in the two decades that followed.[35] During the 1990s and 2000s, when business leaders rose to celebrity status in the media and were known to the average American, they spent successively less time meeting each other and coordinating political strategies.

The limited influence of organized groups is also confirmed in Smith's extensive policy-focused study of the lobbying efforts by the US Chamber of Commerce, arguably one of the most visible business associations throughout the decades.[36] Examining well over two thousand policy positions of the Chamber of Commerce, he shows that it tends to lose its battles unless it has public opinion on its side. The issues that American business is willing to work on collectively have high political salience, which gives politicians an electoral incentive to resist the united corporate front and become more responsive to electoral constituencies. As we know from Culpepper, corporate interests are most effectively defended in "quiet politics."[37] The active coordination of business interests thus faces a paradox: comprehensive organization and coordination require stakes that are of relevance to all different types of business actors, but these are precisely the types of issues that will diminish the influence corporate groups can have.

Does this mean that business will simply retreat from large encompassing associations and continue to wage its battles through smaller, issue-specific interest groups, or even individually? Although this has certainly been the case, we have reasons to doubt the effectiveness of even such specific efforts. To be sure, business groups and individual corporations lobbying in Washington outnumber so-called citizen groups.[38] Their omnipresence and superior resources, along with the impressive anecdotal evidence of business success on specific issues, have led researchers and the public to assume that money is directly related to lobbying success. Yet Grossman finds that policy change is more often associated with advocacy groups than with business groups.[39] Using the measurements of historians who have established positive group influence over individual policy cases, he also documents that identified interest group influence is in slight decline—although it remains in a relatively continuous range of 40 to 60 percent. While some portion of this trend may be linked to the particular form of measurement, it is noteworthy "that reported interest group influence failed to increase during the numerical explosion of group mobilization in the 1970s."[40]

In a recent study, Baumgartner et al. use a painstakingly constructed random sample of lobbying issues and participants to come to surprising and similar results: most importantly, that the relationship between money and policy change is close to zero.[41] There are several reasons for this finding. First, citizen groups are more likely to be

cited as central players, despite being outnumbered. Second, influencing policy change necessitates overcoming a massive status quo bias in American politics. This in turn requires the successful construction of advocacy coalitions from inside and outside the government that most often span the business and nonprofit sector. In many cases—and this is the third point—these heterogeneous coalitions can be found on both sides of a policy issue. As Baumgartner et al. document for nearly one hundred randomly chosen cases, rich interest groups do not just ally with the rich, nor do the poor group with the poor: they mix. The recurrence of such alliances thus tempers the effect of money on interest group success. This is even true in financial regulation, as Ziegler and Wooley show in their analysis of the implementation of the Dodd-Frank Act.[42]

Martin Gilens' study of the relationship between wealth and political influence provides further interesting results.[43] In an impressive research design, he uses survey data on policy preferences for 1,779 issues (support versus oppose) and compares these to actual policy change four years later, asking whether average citizens, economic elites, or organized groups are most likely to see their wishes translated into decisions. The sobering and most fundamental finding is that average citizen preferences have little or no effect on policy outcomes; their preferences correlate only very modestly with interest groups, even those classified as "mass-based." To put it differently, the average American is not well represented through organized groups and does not shape policy dynamics through electoral mechanisms or public opinion pressure. Echoing Hacker and Pierson, the study confirms that American politics does not function as the theories of majoritarian electoral democracy would propose.[44]

More important for our discussion, however: those who appear to have the largest impact on policy outcomes are not organized groups, but affluent citizens. These economic elites, measured as respondents with income levels at the ninetieth percentile, have a separate effect on policy change that is almost twice as large as that of business groups, whose effect is in turn twice as large as that of mass-based groups.[45] Moreover, the association between affluent citizen preferences and business group preferences is surprisingly low.[46] Similarly to Baumgartner et al., Gilens' data show that the success of an average business group is roughly equal to an average mass-based group. At the aggregate level, however, the numerical advantage of business groups in Washington creates a greater correlation between business group preferences and policy change. What is more, and in line with popular sentiment, a combination of preferences from economic elites and business groups increases the likelihood of policy change substantially.

In sum, we face a puzzle. Affluence and influence work in tandem in American politics, but this is *not* because of the superiority of organized groups. It is certainly an advantage to be rich in Washington, but the coordination of business interests has been in rapid decline over the past two decades, and wealthy groups often face equally wealthy opponents. The most significant impact seems to come from the preferences of affluent citizens, not groups. In a nutshell, American politics works in the interest of capital, but our understanding of the mechanisms of this influence is patchy at best.

## *Moving to Europe*

The United States is the most likely case for political influence through lobbying activities. Not only is the lobbying industry among the most established in advanced democracies, the political system in the United States also has two features that, as many fear, create biases in favor of the financial sector and business interests more generally. First, electoral campaigns rely heavily on private contributions, which makes politicians depend on wealthy individuals, firms or sectors, despite the limitations inscribed in campaign funding legislation. Second, comprehensive economic organizations for other stakeholders, such as trade unions, are underdeveloped in the United States. Analysts have thus pointed to the absence of countervailing forces.

Even a cursory glance shows that both of the mechanisms function differently in most European countries. To begin with, public funding of both campaigns and party activities plays a substantial role in Europe.[47] This rise of public party funding was pioneered in northern European countries in the 1960s, but spread steadily and today has been widely adopted in liberal democracies.[48] According to Koß, the emergence of public funding regimes is linked to party politics: there, coalitional dynamics and the discourse of political corruption affect whether sufficient support to introduce public subsidies is available across the party spectrum.[49] He distinguishes between party systems with substantial state funding (Germany and Sweden) and those where proposals to introduce public funding where unsuccessful (France and the UK). France did succeed in introducing state funding in 1988, however, and had considerably extended it by 1995. This is significantly later than in Germany (1959) and Sweden (1965), but it documents the general trend of convergence toward public party funding regimes. Only in the United Kingdom is reliance still mainly on private funding, despite a modest "policy development fund" introduced in 2000. This makes it an exception in Europe, together with Switzerland and Luxembourg, since public funding is the norm today elsewhere. Public support for parties and candidates often also goes beyond direct funding, and can include the allocation of free airtime for advertisements, free space for billboards (Germany, Spain), free use of halls in public buildings (Spain, the United Kingdom), and free mailing services (the United Kingdom).

In line with the earlier discussion, the normative concern with private funding is precisely that this resource dependence will create unequal access for different stakeholders and favor business groups. More generally, it is linked to potential corruption. Empirically, Koß has documented that conservative parties in Germany were eager to move toward public funding in order to free themselves from business influence.[50] This illustrates that we should expect organized business influence over European governments to have decreased in the 1960s and 1970s in most of Europe, and in France in the 1990s. If party financing were a major instrument in shaping policy, politics in the interest of capital would decline after the introduction of public subsidies.

Second, middle-class economic organizations that can act as countervailing forces remain more firmly established in many cases. To be sure, trade unions are under pressure in all advanced industrialized societies, and their density has generally declined in recent decades.[51] Variation across countries still exists, however, and both union

density and the prevalence of collective bargaining in Europe are substantially higher than in the United States. Hacker and Pierson underline this point, arguing that unionization has been halved in the United States, whereas it has dropped by only a third in the European Union.[52] What is more, the rate of unionization in Canada started out nearly identical to the United States, but has remained at 25 to 30 percent, whereas in the United States it is barely above 10 percent. In Europe, it is more helpful to distinguish between different countries, since Scandinavian countries still have a rate of unionization of around 70 percent of the workforce, whereas others, such as the United Kingdom or Ireland, are at 27 percent and 37 percent, respectively. At the bottom, French union density is well below the United States, at 8 percent.[53] Despite such variation, it is fair to say that unions continue to be more present in European politics than they are in the United States.[54]

The financial industry should thus find it easier to wield instrumental power in the United States than in Europe. This allows us to extrapolate: since it is inaccurate to describe the success of finance in Washington as organized combat, we should be able to extend the conclusion to Europe, even if lobbying there is more discrete and difficult to study.

And yet it seems odd to insist that finance has weak instrumental power, since policy trends clearly seem to indicate that choices have been made to its advantage on both sides of the Atlantic. Financialization took place in both the United States and Europe during roughly the same period, in the late 1980s and 1990s. Moreover, political parties across Europe converged on economic and monetary policies in ways similar to the trends described in the United States. Between the 1980s and 2000, we can observe a notable trend to replace direct state intervention with policies based on market principles.[55] In addition, financial regulation in most countries became more permissive in order to encourage investment and funding through financial markets.[56] In sum, the general trend of policy evolution in Europe is comparable to the United States, but the mechanisms cited in the analysis of US politics are unlikely candidates for comprehensive explanations in Europe.

## Structural Power and Policy Change

A comparative perspective shows that the structural features of financial capitalism are more likely to explain policy change across advanced industrialized countries than the specific interventions of powerful actors.[57] In accounts that radically focus on the structure of finance capitalism, researchers such as Harvey and Streeck have pointed to the dynamics inherent in accumulation regimes and debt-financed government expenditures. [58] More specifically, Krippner and others have documented that the rise of finance is fundamentally linked to the need for government funding in a changing international political and economic context.[59]

And yet a comparative perspective quickly highlights that structural features are only one source of power, and their effects vary widely across cases, over time, and across policy initiatives. Part of the difficulty resides in the fact that it matters how policy makers anticipate their choices will be linked to the economic decision making

of individuals. In recent studies, the role of perceptions as sources of variation in structural power has been highlighted.[60] Economic ideas act as scripts that guide policy decisions.[61] However, economic ideas are constantly tested against experience, which means that they do not float freely.[62] The shockwaves after the failure of Lehman Brothers were sufficient to ensure that the US government stopped hoping that market discipline would help them through the crisis.

Structural power allows certain actors to hold privileged positions, where they can "change the range of choices open to others without apparently putting pressure directly on them."[63] Contrary to studies of intentional lobbying and the exercise of instrumental power, structural power perspectives highlight nonintentional domination: even without active interference, business actors can enjoy a policy bias in their favor because of their role in capitalist arrangements and the dependence of the government on economic growth. Still, we need to know how the financial industry and governments interacted in order to understand how perceptions evolved and how the privileged structural positions translated into political choices. In order to do so, the following section zooms in one more particular moment of crisis management: the decision to design national bailout arrangements for the financial industry in the fall of 2009.

A brief comparison illustrates that the final arrangements in Germany, France, Ireland, and Denmark varied according to the degree of disorganization of the financial industry. Specifically, the burden carried by the taxpayers in each country was lower when the degree of organization of the financial industry was high. This fact runs counter to collective action theory, which assumes the bias in favor of an industry to be highest, when the affected firms act in concert to influence policy. Instead, I show that collective action on part of the financial industry allowed governments to negotiate deals that committed finance to contribute to its own rescue in France and Denmark. Inversely, the disorganization of finance led governments to intervene unilaterally and commit largely public budgets in Germany and Ireland. In a context where the financial industry everywhere enjoyed important structural advantages, collective inaction rather than organized combat was crucial for explaining biases in favor of the financial industry. The case comparison shows that we need to study disorganization in order fully to understand structural power.

## Disorganization in Finance

As extraordinarily costly and highly redistributive public policies, bank bailouts are commonly assumed to result from pressure exerted by financial institutions on their governments.[64] Although individual banks will certainly try everything they can to obtain a government bailout when they are on the verge of collapsing, this is by no means a collective enterprise. On the contrary, it is most often the government that urges financial institutions to organize politically and to participate in formulating a government response that can help stabilize the financial sector. In a recent book, I have shown that governments in many countries have tried intensively to obtain a collective private sector response that could serve as a blueprint for a national bailout

plan.[65] This requires coordination among individual financial institutions to determine the extent of their involvement and the price they would be willing to pay for government intervention. For the government, the advantage of collective action by the industry is that business can then shoulder part of the expenditures of a bailout plan. The ideal that governments strive for resembles the private sector consortium brought together by the Federal Reserve Bank of New York for the takeover of Long Term Capital Management in 1998. But private sector collective action can also take other forms, such as the acceptance of mandatory recapitalization. The US government proposed this solution to all major investment banks under the first recapitalization of the Toxic Asset Relief Plan (TARP). Mandatory recapitalization creates costs and disadvantages in particular banks that are in good health, but it allows the industry as a whole to receive aid without stigmatizing individual institutions.[66]

The importance of business-government interactions in translating structural advantages into policy becomes clear when we compare countries that are largely similar in their political economic structure. Germany and France are coordinated market economies within the Eurozone, with large banking markets and a tradition in bank-based financial systems, where banks are central in the allocation of credit.[67] Denmark and Ireland, in turn, are small open economies, highly dependent on international financial markets. Both countries experienced an extraordinary growth of bond markets over the last decade, relative to the size of their economies, and a steep rise in housing market prices that burst as a bubble in the second half of the 2000s. The situation that governments faced when financial markets started to crumble was therefore largely comparable. Facing a particularly urgent situation, Denmark and Ireland were the first two countries to announce a comprehensive national rescue scheme for the financial sector in the fall of 2008. France and Germany soon followed suit, both with the particular intent to maintain credit in the economy.

Despite similarities across each pair, the arrangements featured very different degrees of involvement of the financial sector in each country. France proposed a bailout scheme developed in close interaction with the banking industry, where liquidity was provided by a bank-run public-private consortium, and recapitalization was accepted jointly by all major banks. By contrast, the German government failed in its attempt to engineer a coordinated industry solution and had to rely on public support for institutions that became increasingly costly to unwind. Ireland and Denmark began rather similarly with support plans based on guarantees, which committed excessive amounts of resources to ensuring financial stability. But while Ireland was drawn into a sovereign debt crisis through its unsuccessful banking crisis management, the Danish financial sector created a private consortium with public backing that ring-fenced individual bank failures.

Although the final costs of the bank rescue plans are still unknown, we can already see that the involvement of the private sector relieves the public budget. When governments declared what guarantees and public aid they were willing to commit, both pairs of countries looked rather similar. In 2011, Eurostat's public deficit oversight notes that bank bailouts have made a positive contribution to the public budgets in some countries.[68] France and Denmark are among the most successful ones: France leads the

**Table 1.** Case Summary.

| | Germany | France | Denmark | Ireland |
|---|---|---|---|---|
| Socioeconomic System | Bank-based coordinated market economy | Bank-based coordinated market economy | Small open economy | Small open economy |
| Initial government commitment | High: 25% of GDP committed | High: 18% of GDP committed | Unsustainable: 256% of GDP committed | Unsustainable: 328% of GDP committed |
| Bank rescue plan | Public bailout fund SoFFin, nationalization and unwinding of banks | Public-private liquidity consortium SFFE and joint recapitalization through SPPE | Private sector Danish Contingency Association with public backing | Entirely public scheme, nationalization and asset transfer through NAMA |
| Net costs, as of 2011 | −€16.56 billion −0.7% of GDP | +€2.4 billion +0.1% of GDP | +€0.72 billion +0.3% of GDP | −€35.72 billion −22.30% of GDP |

***Source:*** Author's data.

list with €2.4 billion (0.1 percent of GDP), while Denmark leads it in relative terms, with 0.3 percent of GDP (€720 million). At the other end, Germany and Ireland are among the least successful ones, with a cost of €16,56 billion (0.70 percent of GDP) in Germany and around €35.72 billion, a whopping 22.3 percent GDP in Ireland. These figures are open to much political and technical discussion and likely to evolve as time moves on, but we can already establish that the involvement of the private sector is linked to rather different outcomes. Table 1 summarizes the country information, adding the name of the institutional responses for sake of completeness.[69]

The difference in policy choices and outcomes cannot be read off simple material conditions such as the size and role of the financial industry or the likelihood of capital mobility. Even rather similar cases can display profound differences and there were many reasons to expect Denmark to look more like Ireland than like France. Variation across the four cases resulted from very different political coordination among industry representatives. What were the differences in the political behavior of the financial industry at the height of the crisis?

Both France and Germany have experience with government intervention in the financial sector and are used to negotiating with regulators through associations. The main difference between the two countries is the concentration of the sector: while the French industry is dominated by a handful of large banks, the German industry is decentralized and fragmented. At the height of the crisis, the French banking industry organized daily conversations among themselves and with regulators, helped by the fact that all decision makers were based in Paris. They ended up jointly designing a liquidity scheme with public backing and private collateral, the *Société de Financement de l'Economie Française* (SFEF). The collective arrangement allowed them to issue securities at a time where markets were lacking confidence and thus provide much needed liquidity at very interesting rates. The French government also agreed to recapitalize banks through the *Société de Prise de Participation de l'Etat* (SPPE), against

conditions mutually agreed on with the industry and collectively accepted by all major banks. The coordination of the French sector only crumbled in 2009, when the healthier banks considered government aid to be unnecessary and refused a second collective recapitalization. Overall, however, the French financial industry worked together in a highly coordinated manner, analyzed by many as a defining feature of the French elite networks, with many revolving doors between the public and the private sector.[70]

Despite its long tradition as a coordinating market economy and many attempts, Germany was unable to achieve a comparable result. During the early difficulties of banks such as IKB or several Landesbanken, the government involved the representatives of the financial industry from very early on and asked them to contribute to the rescue. But the German banking industry is divided into three pillars: a commercial banking sector, a mutual banking sector and the savings banks, each sector with distinct political associations. Solidarity across pillars was low, since business models varied widely. Although all participants agreed to contribute to the rescue of individual banks in the early phases, the increasing costs of cases such as IKB and Hypo Real Estate pushed participants to their limits. In early October, the German government gathered the representatives of the major associations and other financial industry representatives into a room to draw up a nationwide rescue plan. The financial industry agreed unwillingly and insisted that recapitalization had to be provided on a voluntary basis, despite the risk of stigmatizing individual institutions. Coordination broke down shortly after, when Joseph Ackermann of Deutsche Bank declared that he would be ashamed to take the public's money—despite having been a party to the rescue negotiations. The German government realized that they had no other choice than to intervene unilaterally by taking over banks that were collapsing and unwinding them through the newly created financial stability agency FMSA.

In Denmark, coordination happened across the financial sector, in ways comparable to France. With the Nordic financial crisis of the 1990s still in vivid memory, the Danes established a public guarantee fund for depositor and investors in 1994, which became an exclusively private fund in 2007: the Private Contingency Association for distressed banks. When the first major Danish bank—Roskilde Bank—went bankrupt during the crisis, the private fund took it into ownership jointly with the Danish central bank. Although the fund was quickly exhausted, it became the backbone of the Danish bailout plan that the government and the Danish Bankers Association (DBA) began to negotiate as confidence faltered in September 2008. All Danish banks were covered by unlimited deposit guarantees through the fund and accepted to contribute to it in exchange for public backing, should the fund run out. A series of bank packages negotiated later on modified the arrangement, but all were agreed on in concert by the government and industry—a rather diverse set of large commercial banks and many small saving banks. Despite nine bank failures that had to be unwound through the collective arrangement, the Danes navigated through the crisis at costs substantially below initial public commitments.

In principle, Ireland is just as small as Denmark and sports a similarly well-connected elite. Yet, no collective action to support the crumbling economy was attempted by either the industry or the government. The banking industry was not a key player in

initial meetings; it entered into contact on an individual basis or sometimes in pairs, but never as an entire sector. In fact, the government even abandoned the idea to have Bank of Ireland and Allied Irish Bank provide a privately funded liquidity line to Anglo Irish Bank, when the economy appeared to recover for a brief period. Evidence available from recorded telephone conversations indicates that executives from Anglo Irish judged support from within the Irish banking sector to be counterproductive, since markets would not judge such support as a sound financial investment. Rather, it would appear that the bank executives had "just met them in the pub" and that "we are all in each other's pockets."[71] Indeed, the only ties among Irish banks that became apparent during the crisis period were in the circular loan scandal at Anglo Irish, a rather inglorious attempt at finding a collective solution to the public crisis. Without private contributions, the Irish government was left to itself to prop up the crumbling sector. Through a series of misjudgments and outright deception on the part of the financial institutions it ended up overextending itself and slid into a sovereign debt crisis for which the Irish population had to pay a heavy toll.

Comparing the behavior of the financial industry in all four cases indicates that disorganization rather than organized action led to more substantial public commitments in support of finance. When financial institutions failed to act in concert, the government engaged public money to save the industry.

The structural importance of finance in all cases served as a backdrop for a negotiation game that resembles the familiar game of chicken where two cars drive at full speed towards one another. The one who gets out of the way first loses. In continental Europe, a collapse of the banking sector would have dried up funding to the real economy; in Ireland and Denmark, failing institutions would have led to a contagion through international wholesale finance. Each of these scenarios was sufficient to impose action, but the open question was who would carry the costs. In France and Denmark, the private sector participated in burden-sharing arrangements, in Germany and Ireland the government footed the bill.

## Conclusion

By juxtaposing scientific evidence on the evolution of business lobbying in the United States and policy choices in Europe during the recent financial crisis, this article has tried to make a simple point. We should not spend all our energy studying organized political influence: policy choices are often crucially shaped by disorganized interests. The lack of organization in politics is not a sign of weakness; it can be a sign of strength and create substantial biases.

Understanding when and how this is the case requires returning to structural power. This notion, abandoned in recent decades because of its rigidity and indeterminacy, can be usefully employed for studying political interactions if we allow room for agency. The answer to the question "Why did all advanced industrial economies bail out their banks?" is "Because banks hold structural power." If we want to go a level deeper and understand how banks were bailed out and what explains variation across cases, we need

to consider how structural advantage was translated through negotiations. Specifically, collective action and collective inaction were crucial for the differences in outcomes.

Whether we are studying the evolution of public policies in the United States or in Europe, we should avoid being blinded by the "electoral spectacle," as Hacker and Pierson rightly point out, but we should also see beyond the "interest group spectacle." The fact that winners take all in US politics is linked to the structural position of business interests and the cumulative advantages they were able to secure over time. This does not necessarily require a high level of organization and often, as we have seen in the recent crisis, any form of combat.

Opposing negotiation analysis in a structural setting to pure accounts of lobbying influence is important because it leads to markedly different policy recommendations. If lobbying was the source of political bias, a simple solution would be to regulate business access to politics or encourage the participation of countervailing groups such as trade unions. Initiatives in this direction have been undertaken by the European Parliament, for example, which created the NGO Finance Watch in order to provide position papers on finance that differed from the industry perspectives. If the structural advantage of finance was at stake only profound regulatory changes that limit the government dependence on banks or the financial sector might make a difference. Whether such profound reforms are possible within the realm of financial capitalism is an open debate, which opposes proponents of current regulatory reform to more pessimistic observers within a more Marxist tradition of thought.

If one accepts that politics in our current economies will have to make do with a bias in favor of finance, one can nonetheless limit the domination of the industry by encouraging more, not less political participation. As we have seen, structural advantage can be translated into bias through disorganization in times of crisis. To prevent such disorganization, governments can create institutions that oblige the private sector to take on public responsibilities, consult among one another and with the government and contribute to the policies designed for their own benefits. When the financial sector has to contribute private money for public purposes, its members have an incentive to monitor one another more intensively and signal whether one of their competitors abuses public benefits or risks the stability of the sector as a whole.

The lessons from a negotiated structural power account provided here are thus opposite to those from an instrumental power account: political organization needs to be encouraged. As long as participation is collective and can be negotiated with other stakeholders, the financial industry is one of the most precious participants needed for the prevention or at least the containment of the next financial crisis.

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