Cornelia Woll*

A Symposium on Financial Power

Introduction to the Book Review Symposium on Cornelia Woll
The Power of Inaction: Bank Bailouts in Comparison. Ithaca, NY:
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Symposium on ‘The Power of Inaction. Bank Bailouts in Comparison’ by Cornelia Woll

- 1 Cornelia, Woll (2016) ‘A Symposium on Financial Power’, Accounting, Economics and Law: A Convivium, DOI 10.1515/ael-2016-0001.
- 2 Kelsey M. Barnes and Arthur E. Wilmarth (2016) ‘Explaining Variations in Bailout Policies: A Review of Cornelia Woll’s *The Power of Inaction*’, Accounting, Economics and Law: A Convivium, DOI 10.1515/ael-2015-0012.
- 3 Matthias Thiemann (2016) ‘The Power of Inaction or Elite Failure? A Comment on Woll’ “The Power of Inaction”, Accounting, Economics and Law: A Convivium, DOI 10.1515/ael-2015-0011.
- 4 Philippe Moutot (2016) ‘Power of Inaction or Ability to Learn in Action within a Political Process? Comments on “The Power of Inaction” by Cornelia Woll’, Accounting, Economics and Law: A Convivium, DOI 10.1515/ael-2015-0009.
- 5 Raphael Reinke (2016) ‘The Power of Banks and Governments’, Accounting, Economics and Law: A Convivium, DOI 10.1515/ael-2016-0003.
- 6 Jason O. Jensen (2016) ‘Comment on *The Power of Inaction* by Cornelia Woll’, Accounting, Economics and Law: A Convivium, DOI 10.1515/ael-2015-0010.
- 7 Yuri Biondi (2016) ‘Empowering Market-Based Finance: A Note on Bank Bailouts in the Aftermath of the North Atlantic Financial Crisis of 2007’, Accounting, Economics and Law: A Convivium, DOI 10.1515/ael-2016-0004.
- 8 Cornelia Woll (2016) ‘A Rejoinder by the Author’, Accounting, Economics and Law: A Convivium, DOI 10.1515/ael-2016-0005.

It is a privilege to be read and discussed by such insightful scholars, several of which have made important contributions to our understanding of industry-government relations and financial regulation in recent history. Their reading of my own analysis has given me a much sharper sense of my argument. Indeed, I agree with many of their comments, including some of the critical ones, and believe our discussion contributes positively to the still on-going political analysis of the recent global crisis.

The reviews all thoroughly engage with the political analysis and the empirical discussion of the bank bailout schemes presented in the book. Their

*Corresponding author: Cornelia Woll, Sciences Po, Paris, E-mail: cornelia.woll@sciencespo.fr

main thrust differs, however, and it is helpful to organize my response by grouping them according to the focus of their criticism. This allows me to clarify three subjects in my rejoinder to the following discussion: the nature of power, the use of the chicken-game metaphor and the role of healthy banks in different countries.

The fundamental difficulty that links several of the critical comments is the evasive nature of power and the inherent difficulties in studying it. Throughout my book, I have tried to warn against seeking to identify vehicles of power and to focus on the nature of relationships that unfold over time. Such epistemological considerations are difficult to insist on once one enters in the very concrete analysis of financial crisis management in six different countries. Over the course of the analysis, the focus can shift from one actor to the other, from a particular advantage or resources to a precise strategy. My argument is that these elements have to be considered jointly, because power is a relational concept, based on the constant renewal of commitments, to which all of these individual elements contribute. These links make each individual case potentially frustrating, because individual mechanisms might stand out in one country and lead us to think that they are a cause of the bailout arrangement. The comparative approach I have chosen guards against such conclusions, but requires accepting a certain complexity.

Before engaging in this discussion in more detail in my rejoinder, it is helpful to summarize the main argument of the book briefly to clarify what I was trying to achieve and what I did not aim to address.

A brief summary of the book

In comparing the patterns of national bank rescue schemes across six countries, my book demonstrates that socio-economic orders and financial regimes – the so-called varieties of capitalism or bank vs. market-based finance – cannot explain variation across countries in the management of financial crises. The dominance of finance in all advanced economies is such that the precise interaction of the financial industry and their respective governments during the intense negotiations in the fall of 2008 made a difference for the design of the rescue packages. The long-term structural features combined with negotiation strategies in this one particular moment in time, which I analyze with the help of a game-theoretical metaphor: a game of chicken. In this game, the one who moves least wins. In the context of the national plan negotiations, the financial industry was fostered to play collectively, which implied that they were able to exercise power through collective inaction in some cases. In case of collective inaction by banks, governments ended up with a large portion of the costs of bank rescue schemes. Inversely, governments that were able to entice their

industry into a collective response demonstrated that the state could maintain a degree of power over their financial industry, even at the brink of financial collapse.

The empirical analysis focuses on six cases, paired according to initial assumptions: the US and the UK as liberal market-based economies, Germany and France as coordinated economies with universal banking, and Ireland and Denmark as small open economies with large financial sectors. Bailout patterns were quite different from these initial pairings. In the United Kingdom and Ireland, the government did not push for a collective industry response and none arose. In Germany and the United States, the government insisted strongly that the financial sector should contribute collectively to the management of the crisis, but the industry refused to organize. In France and Denmark, governments and the financial industry jointly designed rescue plans with substantial support from the private sector. I suggest that such a collective private sector contribution is beneficial for the public budget, but am careful *not* to establish it as the sole factor explaining the ultimate outcome in terms of costs. Indeed, even national rescue schemes carried solely by the government can turn out to be relatively cost-effective if the economy recovers quickly, or if the government succeeds in making a return on capital investments and in avoiding fire sales of banking assets, as Moutot underlines. My point is thus not purely about optimal policy choices, but rather about business-government relations and the power equilibrium one can observe across countries during the financial crisis.