

[Waltraud Schelkle](#)

Book review: the power of inaction: bank bailouts in comparison by Cornelia Woll

Article (Accepted version) (Refereed)

Original citation:

Schelkle, Waltraud (2015) *Book review: the power of inaction: bank bailouts in comparison by Cornelia Woll*. *Perspectives on Politics*, 13 (4). pp. 1199-1201. ISSN 1541-0986

DOI: [10.1017/S1537592715002972](https://doi.org/10.1017/S1537592715002972)

© 2015 [American Political Science Association](#)

This version available at: <http://eprints.lse.ac.uk/65502/>

Available in LSE Research Online: February 2016

LSE has developed LSE Research Online so that users may access research output of the School. Copyright © and Moral Rights for the papers on this site are retained by the individual authors and/or other copyright owners. Users may download and/or print one copy of any article(s) in LSE Research Online to facilitate their private study or for non-commercial research. You may not engage in further distribution of the material or use it for any profit-making activities or any commercial gain. You may freely distribute the URL (<http://eprints.lse.ac.uk>) of the LSE Research Online website.

This document is the author's final accepted version of the journal article. There may be differences between this version and the published version. You are advised to consult the publisher's version if you wish to cite from it.

The Power of Inaction: Bank Bailouts in Comparison. By Cornelia Woll. Ithaca: Cornell University Press, 2014. 224p. \$32.50.

Waltraud Schelkle, *London School of Economics and Political Science*

This monograph describes and analyzes the six biggest bank bailouts in the OECD world in 2007-10 and national reregulation efforts up to 2012. As everybody would expect from Cornelia Woll, a political economist from Science Po, this is an unusually readable book, with startling quotes and meaningful anecdotes, empirically rich and theoretically stimulating. The author has previously worked on business-government relationships in the context of global trade talks. Now she applies her expertise to the financial crisis in which this relationship was tested as never before, because at no time in history were governments so much involved in providing public goods to business, be it the rule of law, defense of national interests in international fora, and social security for their employees.

In 2007-10, the financial industry had every possible incentive to cooperate with monetary, fiscal and supervisory authorities trying to save it from the disastrous fallout of financial innovation and overextension of credit in the previous decade. And yet, only in two of the six countries—Denmark and France-- does the author find that the financial industry cooperated with the government's efforts at helping them. Was this widespread non-cooperation due to unwillingness or due to incapacity on the part of relevant financial sector actors?

The book advances an interesting idea that would turn Mancur Olson's logic of collective action on its head (pp. 7, 58-59): in crisis situations, the ability to *refrain* from collective action gives actors the power to make the other party bear the brunt of costly crisis management. The basic idea is implied by iterative games, such as the War of Attrition, in which the payoff varies with the length of the game. The more patient players, formalized as having a lower discount rate, will achieve the outcome with a more favorable payoff for themselves. However, Cornelia Woll relates this idea to the time-honored debate about power, reclaiming territory for qualitative political economy that is easily lost to economists with their neat, but also somewhat sterile, models. In a masterful, jargon-free theory chapter on "the power of inaction," she distinguishes structural power from productive power and maintains that it is the latter that can explain the variation in her case studies. This conceptualization challenges structuralists among her fellow political economists with whom she sides, however, against the trivial notion of power in public choice theories, namely as being all about campaign finance and lobbying.

The six case studies are preceded by a chapter on regulatory philosophies that is surprisingly inconsequential for the following analysis. The author has the ingenious idea of presenting the six countries in a pair-wise comparison of those which should take similar measures: the United States and the United Kingdom as the two stereotypical liberal market economies with well-organized financial interests; France and Germany as the countries with strong representations of collective private actors; Ireland and Denmark as the small open economies which are surprisingly similar in terms of huge house price bubbles and highly indebted households. For each of the two countries compared, the author then proceeds to show how different the rescue measures were.

With the exception of the Irish government, administrations tried hard to make national financial industries to get their act together and share in the rescue effort. The chances for this were good in

the United States, because the government dealt with only nine systemically relevant banks while banks in the City of London with its international presence are too many and diverse. Yet, the nine big players flatly refused and forced the US administration to address individual circumstances with a plethora of programs under the umbrella of TARP, the *Troubled Asset Relief Program*. The UK government imposed its rescue measures unilaterally, not least nationalization. This approach allowed dictating the terms but also shifted the risk onto the taxpayer. The difference in the political system, fragmented in the US and centralized in the UK, seems to explain the difference in policy outcomes (p.109). Woll's account of the US-UK bailouts has been disputed by Pepper Culpepper and Raphael Reinke ("Structural power and bank bailouts in the United Kingdom and the United States", *Politics & Society* 42(4), 2014). They consider the structural power of UK banks to be superior to that of US banks and claim that UK banks got a better deal.

This dispute raises the question of how one can measure the revealed power of private actors: by the potential risk to public finances at the height of the crisis or by the risk that materialized in terms of net costs at the point of winding down the rescue? Would either prove that private risk was strategically shifted or is it possible that the banks simply were too weak and unorganized to bear it?

Unlike the US government, the French government managed to force the well-connected banks to a cooperative solution with a public guarantee as the back-stop for panic. In Germany, the state was left with a costly and politically embarrassing bailout: private sector involvement was voluntary and the well-connected Deutsche Bank refused to cooperate. The structure of the financial system, highly concentrated in France and very heterogeneous in Germany, seems to explain the difference (p.137) although incompetence also played a role in Germany. Incompetence certainly is the decisive factor in the Ireland-Denmark comparison. The Irish "chicken game" (p.164) ended with the worst outcome for both, the banks being stupefied by greed while the government wavered between denial and panic. The Danish government, by contrast, solved the collective action problem of its banks and coordinated the private rescue efforts unobtrusively.

These fascinating case studies have not convinced me of the financial industry's power of inaction, however, not even in Ireland and Germany where the risks and possibly the final costs of bank bailouts were shifted onto the public purse. It is to the author's credit that she does not belabor the point and gives readers the evidence and her balanced interpretation so that they can draw their own conclusions.

The case studies still show an important point for political economists: in a crisis, it is not the strength but the weakness of private actors which governments must fear. They are exposed to what Dani Rodrik and Richard Zeckhauser called "the dilemma of government responsiveness" (*Journal of Policy Analysis & Management*, 7(4), 1988). Public authorities can be exploited by private actors if these private actors are more valuable as a going concern. The concern was the – perceived or real – importance of banks for the capitalist economy. Woll's insight is that a political economy account centered on the classical concept of power is not confined to analyzing power struggles analogous to sports contests: purposeful actors directly competing with each other for victory. Political economists interested in power can also study the weakness of strength (here: governments) and the strength of weakness (here: the financial industry), even when the sources of strength are beyond the powerful party's control. The model for the banks' behavior is the famous cartoon about *Asterix and the Romans* by Goscinny and Uderzo: anarchy, helped by the occasional

dose of magic (read: financial innovation), withstands the imposition of order. Woll's book is a must-read for political economists.

Published in *Perspectives on Politics* December 2015, vol.13/no.4.