Banking on the public: market competition and shifting patterns of governance
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Foreword and acknowledgements

This thesis marks the end of a journey. And what a journey it was. At times trying, mostly very pleasant, and always inspiring (especially due to the people I met along the way). Along the road to a better understanding of the political economy of the global financial system and more generally International Political Economy, we stumbled upon the biggest global financial crisis since the Great Depression of the 1920s, adding an urgent layer of relevance to the research. In that sense, it couldn’t be a better time to reach the end of the travels.

Along the way, I received excellent guidance. First and foremost, I was guided by Geoffrey Underhill, a great political economist with a perfect overview of the terrain of financial governance. If there is one person I owe the success of this PhD trajectory to, it would be him. Your advice never failed to challenge me to sharpen my own thinking and deepen my insights. Moreover, you were very generous in offering opportunities for interesting detours such as edited volumes and visiting scholarships. Beyond the academic, it was also a pleasure to share a good glass of wine and discuss the academic *habitus*, current affairs, and the history of live, the universe, and everything. In short, it was a privilege to work with you and I look forward to future endeavours.

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This study would not have been possible without the interviewees who generously sacrificed their valuable time during my 2007 – 2009 world tour. Although their insights form one of the core pillars of this research, for reasons of confidentiality this could not always be acknowledged in the text. Many of them are listed in the annex, although some wished to remain completely anonymous. They can be ensured of my gratitude nevertheless. Without your assistance this study would not have been possible, and I sincerely hope this thesis returns the favour by providing useful input to your policy work.

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While I was going about the world of global finance, I tried to retain my Alkmaar roots as it was always a pleasure to hang out with my friends from ‘back home.’ That kept me grounded, and I am fortunate that you accepted that all too often I missed out because of academic duties called. The same goes for my family, you have supported me throughout. The support of Sarah in the last two years was unrelenting, and I am very grateful for her patience with me. I am happy to have you in my live, and as I have said often before: good times lie ahead.

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Amsterdam, September 2011

Chapter 1

Shifting patterns of governance, changing market structures, and public-private interaction

Global financial governance and the challenges of financial crises

On Friday, 27 July 2007 Mr Stefan Ortseifen, CEO of the Düsseldorf-based IKB Deutsche Industriebank, came to work facing a difficult day. The day before, Deutsche Bank and others had restricted their credit lines to IKB. Although German regional banks are traditionally relatively small and oriented towards the Small and Medium-sized Enterprises (SME) sector, this specific regional bank had engaged in investments in so-called ‘structured products’. These investments had run into trouble, which led other banks to tighten their credit lines. This threatened the liquidity of IKB and feverish negotiations ensued throughout the weekend between Mr Ortseifen, IKB’s main shareholder KfW (a state-owned bank), the German authorities (Ministry of Finance and the German banking supervisor BaFin) and the various German banking associations. On Monday, 30 July an ad hoc official statement by IKB announces a profit warning and a €3.5 billion rescue package as well as the immediate dismissal of Mr Ortseifen. KfW financed 70 per cent of the rescue package, with the remaining 30 per cent provided by other German banks. One of the members of KfW’s Board of Directors assumes Mr Ortseifen’s duties.

Although this seems quite a typical story of a bank running into murky waters and public authorities coming to the rescue by hastily arranging a ‘marriage’ with a more solvent financial institute – a story which could have been situated anywhere else just as well as in Düsseldorf – a closer look at the mechanisms behind IKB’s demise shows how it exemplifies the broader financial crisis which was unfolding at the time.

The structured products that triggered IKB’s troubles were underpinned by American mortgages, reflecting the global integration of financial markets. The closer look should therefore start with the changes in the pattern of governance of the American mortgage market and the reaction of market participants to these changes. The changing patterns of gover-

1 The following anecdote from the current financial crisis only serves to illustrate the relevance of the questions asked in this thesis, and in no way aims to give a full account or even to touch upon the most important events. It is based on more elaborate accounts in Blom, 2010. See also Gamble, 2009 and Schwartz, 2009 for in-depth analyses of the crisis and Sorkin, 2009 for a gripping journalistic account.