Germany’s Landesbanken and the Financial Crisis: How Path-Dependency Led Germany’s State-Owned Banks Off the Cliff

Tuesday, May 27, 2014, 1 p.m.
Room B 002/03

Brownbag seminar by Professor Mark Cassell

Germany’s state-owned banks ("Landesbanken") have been central actors in the country’s economic success since the mid-19th century. Yet, during the recent economic crisis, Germany’s state-owned banks performed far worse than their private sector counterparts. Although they comprise 21 percent of all bank activity in Germany prior to the crisis, Landesbanken accounted for 41 percent of the financial losses. In addition, a number of well-established and large Landesbanken fell into conservatorship, closed, and were taken over by other institutions. Economists argue that Landesbanken losses are a function incompetent leadership and the absence of an effective business model capable of competing in a more integrated European Union. This research builds on previous work but takes a different tact by exploring the consequences of separating Landesbanken from their institutional moorings. Although the mission of some Landesbanken began to change as early as the 1980s, decisions by the European Commission in the early 2000s pushed the Landesbanken onto a very different path from the one they had been on for over a century. This talk considers the consequences of such changes: what happens to financial institutions and their regulatory structures when the financial institutions are set adrift of their institutional origins. The short answer: it’s usually bad.

Mark Cassell is Professor of Political Science at Kent State University in Ohio. He is the 2014 recipient of the Fulbright Senior Researcher Fellowship and is currently doing research in Germany on the experience of Landesbanken during the 2007/8 financial crisis. Cassell’s book publications include Mission Expansion in the Federal Home Loan Bank (2010, SUNY Press, co-authored) and How Governments Privatize: The Politics of Divestment in the United States and Germany (2002, Georgetown University Press). He has also published in Public Administration Review, Governance, Social Science Quarterly, and International Public Management Journal. His current projects include an examination of public banking in Germany and the United States.

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