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The case of financial crisis in Denmark

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Abstract

Ideational scholars have done much to explain how the institutionalisation of new policy ideas helps actors get through economic crisis and the fundamental uncertainty it entails. However, an important theoretical weakness remains: an inability to explain how actors handle a crisis before new ideas have been institutionalised. With the old ideas discredited and no new ones to take over, we should expect to see actors unable to act forcefully. However, we often see just the opposite: actors trying to shore up belief in their political vigour by issuing comprehensive policies, the bailout of banks in the wake of the financial representing one recent prominent example. The paper proposes two interconnected arguments about how actors handle the cross-pressure of widespread uncertainty about the workings of the economy and the need to act fast. First it conceptualises political actors as 'bricoleurs' who combine ideas from the existing, but failing, paradigm with new ideas that often stand in contradiction to the existing paradigm. That actors resort to the existing sets of ideas explains how actors are able to act in spite of uncertainty. Second, it provides an alternative understanding of ideas as dynamic, flexible and malleable to show how actors' combination of existing ideas is possible in the first place. Analysing the bailouts of Danish banks in 2008-2009, the final section uses this theoretical argument to explain how Danish politicians responded to the financial crisis.

Key words: ideas – finance – financial crisis – bricolage

Introduction

One of the strongest claims of ideational theory is that ideas matter in times of economic crisis. During crises ideas that have previously made the economy intelligible and actionable can suddenly no longer give meaning to economic action. Crisis thus sends agents groping in the dark for new ideas, policies and instruments that once again can provide stability to the economy. Ideational studies have provided fresh insights to debates on economic crisis, which have predominantly focused on the material interests of actors (see Widmaier et al., 2007). However, despite its many merits, ideational research is not able to explain how actors handle the immediate outbreak of crisis, that is, they underspecify how actors are able to create the minimal level of stability necessary for arriving at a new ideational and institutional structure.

Blyth (2002) argues that new ideas reduce uncertainty by providing a template to interpret the crisis. According to Hall (1993) it is a new policy paradigm that is able to stabilise policymaking, and Culpepper (2008) suggests that new common knowledge (i.e. ideas) sets the stage for a common ground to negotiate from. It remains unclear, however, how actors handle the uncertainty *between* the fall of the existing set of ideas and the institutionalisation of new ideas. Culpepper (2008) brings us the farthest by pointing to the policy experimentation that takes place before new ideas take hold. However, if we look to one recent and very prominent example of crisis, the financial crisis of 2007-2008, is 'policy experimentation' then the way politicians and officials handled the crisis? From one perspective it is certainly arguable that decisionmakers experimented, at least in the sense that they were very unsure whether the bailout of banks and financial institutions would indeed prove to be the solution. From another perspective it seems a gross understatement to call the largest ever bailout of banks in financial history an instance of 'policy experimentation'.

Moreover, the ideational theories cited below tell us little about how policy experimentation actually solves the problem of uncertainty, that is: how does experimenting help actors handle the uncertainty brought on by ideational crisis? What does the experimenting that brings actors forward entail? Reading through the literature on economic crisis and ideational change, one almost gets the sense that actors are thought able to put the crisis on hold, while they conduct their experiments. However, much to the contrary, economic crisis demands swift and decisive action by decisionmakers, which is an all the more difficult task, when there are no standard answers to turn to. Spending enormous sums of public funds to save the financial markets, the bailouts constituted a significant ideational shift away from an otherwise never faltering belief in the strength of the market. The shift might very well turn out to be only temporary – the evidence so far supports this conclusion (Helleiner et al., 2010) – but none the less politicians across the Western

economies departed strongly from their existing sets of neoliberal ideas. It seems difficult to explain this massive temporary ideational shift as an instance of policy experimentation.

The paper offers a solution to this problem. It suggests that through a reworking of two central theoretical concepts in ideational analysis – namely actors and ideas – it is possible to account for ideational supply during times of crisis. First, it proposes an alternative understanding of actors: instead of conceptualising actors as either (almost) unaffected by crisis, or as (almost) paralysed by uncertainty, the paper argues that when confronted with ideational crisis, actors act as 'bricoleurs', who recast institutional and ideational parts from the failing paradigm and mix them with new elements. Because actors cannot discard the ideas they hold from one day to the next, and simply pull ideas ready for use off the shelf, they handle the uncertainty brought on by failing ideas and institutions by resorting to their existing set of ideas. New ideas can then be attached to the 'old' set of ideas. Though the resort to old ideas by no means delivers fail proof instructions to the new structural setting, it does enable actors to handle the uncertainty of crisis. Second, the paper recasts the common conception of ideas as coherent, stable and incommensurable to argue that seemingly contradictory ideas can be combined in times of crisis to give immediate relief to actors struggling with uncertainty. In this way old and new ideas can combine. The usefulness of the theoretical argument is sought demonstrated in an analysis of how Danish politicians and officials reacted to the financial crisis of 2008.

Ideas, crisis and uncertainty: A critique of existing research

Ideational studies of economic crises often emphasise the uncertainty that crisis entails. Uncertainty basically engenders that actors cannot anticipate the outcome of a decision and cannot assign probabilities to the outcome. They are thus unable to resort to their usual cognitive schemas to determine what their interests are (Blyth, 2002). This naturally makes ideas paramount in explaining actors' response to a crisis and the succeeding building of new economic institutions. Ideational theories vary as to how uncertain actors are of their interest. On the one hand, some scholars that use crises as part of their ideational explanation do not deal explicitly with uncertainty as a central factor. One example is Schmidt (2002) who argues that change comes as a result of crisis in policy discourse and/or programmes. The crisis ushers in a search for a new discourse that can provide solutions that the previous discourse is not in a position to supply. We are not told how actors handle the crisis other than that they take part in a battle over which ideas, discourses and policy programmes should structure the new institutional setting. At the face of it, then, we are led to believe that ideational crisis does not entail uncertainty in any significant degree. Hall's (1993) influential theory of policy paradigm change also does not explicitly deal with crises, but the process of paradigm change resembles a crisis situation, where policy makers are faced with anomalies that are not explicable within the terms of the paradigm. The fail-

ure of the existing paradigm initiates “a wider contest between competing paradigms” (p. 280), which will continue until “the supporters of a new paradigm secure positions of authority over policymaking” (p. 281). In Hall's (1993) theory, policy experimentation plays an important role. The experience of anomalies sends the actors experimenting with their ideas, but this happens *before* the outbreak of crisis as part of the effort to patch up the paradigm. The theory is thus unclear about how actors are able to create policies once the paradigm has broken down and no new paradigm has taken over. On the other hand we see theories that explicitly use uncertainty as an analytical tool. One of the most comprehensive and influential analyses of the relation between ideas and crisis is presented by Mark Blyth in his book, *Great Transformations* (2002; cf. Blyth, 2003). To Blyth uncertainty plays a pivotal analytical role. According to Blyth ideas come to have influence because they reduce uncertainty in periods of economic crisis. Referring to the work of the economist Frank Knight (1921), Blyth argues that crisis leads to a state of 'Knightian' uncertainty, where “agents have no clear conception as to what possible outcomes are likely, and hence what their interest in such situations are beyond a very general level” (Blyth, 2005: 78). Here ideas come to their help “by acting as interpretive frameworks that describe and systematically account for the workings of the economy by defining its constitutive elements and providing a general understanding of their 'proper' (and therefore improper) interrelations” (Blyth, 2002: 37). Following a crisis, ideas thus reduce uncertainty and provide a blue print for the establishment of new institutions, which are then stabilised through the institutionalised conventions that the new ideas create. The emphasis on uncertainty provides great room for ideational explanations, but it also creates an analytical problem: if actors are indeed so uncertain of their interest and understanding of the world, how do they manage to bring new ideas to the fore? Notice how the institutionalisation of new ideas solves the crisis: by definition, the institutionalisation of new ideas signals the end of crisis. When new ideas are accepted, the healing has begun. But where do the ideas used to act while the crisis roars come from?

Another scholar that focuses on uncertainty in times of crisis is Culpepper (2008). According to Culpepper (2008) institutional crisis is initiated by declining performance and often unilateral defection of former players of the game, leading to the questioning of the 'taken-for-grantedness' of existing institutions, thus destabilising their cognitive basis (p. 5). After this upsetting of institutions, “social actors enter a terrain of more substantial uncertainty, where their material preferences may be stable but their cognitive grasp on the world is not” (p. 6). In this version of crisis, Culpepper (2008) argues that though interests are stable even in times of crisis, actors do not now how to maximise these interests. Thus, uncertainty matters a great deal in Culpepper's analysis, because it sets the stage for the establishing of new institutions. After the breakdown of the institutional and ideational setup, a process of policy experimentation starts. According to Culpepper (2008: 7) the ideas that are likely to form the basis of common knowledge are those that can win

the argument, speak to the interests of actors and provide a credible diagnosis of the crisis. Until new institutions are consolidated and stability once again ensured, all actors are constrained by the analytical strictures of the logic of arguing (Risse, 2001). Culpepper (2008) thus brings us some way in understanding how agents are able to act without stable ideas at hand: with the deligitimisation of prevailing common knowledge, and actors uncertain of how to maximise their interests, agents following the logic of arguing are more open to the effect of alternative perspectives presented by rival actors. This also opens up the possibility that actors will open their minds to using ideas that to some degree contradict their existing set of ideas.

It seems as if the question of uncertainty during crisis has become a matter of too little or too much. Some theories either downplay the degree of uncertainty or do not deal directly with the question. These analyses argue that agents need ideas to act, but when these ideas are no longer able to provide solutions to economic problems, actors simply use new sets of ideas – seemingly ready at hand in the event of crisis – to make sense of the crisis. Such an understanding of ideational change is at odds with the common ideational argument that ideas are necessary for actors to act: If actors use ideas to make sense of the world and act in spite of complexity – as Schmidt (2002) and Hall (1993) indeed suggest – that is, if ideas are vital for actors to act, then it does not seem plausible that different political fractions can in times of crisis simply pull out their pet ideas that then help them understand the crisis. Robbed of their usual habits of thinking, actors would go through a period of uncertainty, where the lack of agreed-upon ideas makes consistent, effective governing an article in short supply.

This is exactly what Blyth (2002) argues. But as noted above, Blyth's radical version of uncertainty poses another problem, namely that it is difficult to understand how crises are ever resolved. Perhaps Culpepper (2008) is closest to the middle ground – arguing that crisis leaves actors searching for new 'common knowledge' to structure interaction. However, Culpepper (2008) does not provide an answer to where the new ideas come from. This leaves one with the impression that actors pull ideas off the shelf in times of crisis, which in turn would make the influence of uncertainty negligible at best. Taken together, ideational theories have to date not pointed out the origin of the political ideas that actors work with while engulfed in crisis. The case of the financial crisis of 2007-2008 thus poses an explanatory problem for existing ideational theories. The speed and comprehensiveness of the faltering of the institutional and ideational setting that had structured actors' perception of the financial system before the crisis, made it necessary – or indeed actors *perceived* it to be necessary – to act quickly. Put differently, there was no time for decisionmakers to experiment – they had to act, and they had to act quickly. How was this possible considering that the crisis had revealed the existing set of ideas to be redundant? In the following section I propose an answer that builds on an understanding of actors as both dependent on ideas *and* pragmatic and non-dogmatic. I propose to use the image of politi-

cians as handymen – as 'bricoleurs' piecing together new and old ideas to create solutions fast – to explain how immediate action was possible in face of uncertainty.

Decisionmaking in crisis: actors as handymen

It is the argument of the paper that two central theoretical concepts – actors and ideas – can be reworked in a way that provides a solution to our theoretical problem of ideational supply during crises. The following analysis falls in two parts. Tying together different alternative conceptions of actors that all focus on actors' creative use of existing ideas and institutions, the first part deals with the ways actors handle crisis. It is argued that in times of crisis, where uncertainty sends actors looking for new ideas, actors resort to recombination of their existing sets of ideas, which they use to hook new ideas onto. To show how it is possible for actors to recombine old and new ideas, the second part of the analysis explores the structure of political ideas. In contrast to the standard conceptualisation of ideas as coherent, incommensurable and largely monolithic (see Carstensen, 2010b), it is argued that ideas are flexible and malleable, which makes it possible to combine seemingly contradictory ideas – hence also old and new ideas – to handle the uncertainty brought on by economic crisis.

Ideational and institutional reflexivity

The studies reviewed above all concur, with a degree of variation, on a conceptualisation of actors as 'a-rational', which means that actors have "no clear rational course of action in the absence of interpretative filters" (Parsons, 2007: 98). A-rationality is also the ontological basis for this paper: Actors are motivated by ideological and power-seeking interests, but they are seldom perfectly aware what their interests are or how to satisfy them. Of course the problem of identifying interests and ways to satisfy them, becomes a no less daunting task in times of crisis. If actors can no longer use the ideas they have used for years, how are they supposed to act? Is it possible at all to act without ideas?

A related question has been intensely discussed in parts of institutional theory, namely how actors are capable of transforming institutions, when institutions structure the interaction of actors (Thelen, 1999; Streeck and Thelen, 2005; Schmidt, 2010a). At the face of it this paper deals with the opposite problem – namely how actors deal with a *lack* of institutions in periods of crisis – but the problem is basically the same, namely *how actors are able to act outside institutions*. According to discursive institutionalist Vivien A. Schmidt (2008), the problem of a low degree of agency in institutional theory can be solved by simultaneously treating "institutions as given (as the context within which agents think, speak, and act) and as contingent (as the results of agents' thoughts, words, and actions)" (p. 314). She goes on to distinguish between the 'background ideational abilities' and 'foreground discursive abilities' of actors. Where background ideational abilities are

used to make sense of a given meaning context – which most often leads to a maintaining of the institution – foreground discursive abilities enable agents “to think, speak, and act outside their institutions even as they are inside them, to deliberate about institutional rules even as they use them, and to persuade one another to change those institutions or maintain them” (p. 314). This approach thus allows agents to communicate at a meta-level, that is, “to conceive of and talk about institutions as objects at a distance, and to dissociate themselves from them even as they continue to use them” (p. 316).

Schmidt (2008) provides us with the first clue as to how actors handle ideational crisis: despite their use of the existing institutional setting as well as background ideational elements, actors can at the same time reflect critically about these structures. We probably should not overestimate the reflexivity of actors as the environments they act within are complex and uncertain, but neither should we understand actors as institutional and ideational ‘dopes’ unable to reflectively use the resources at hand to try to gain political power and meaning. Instead, actors are, at least to some degree, able to reflectively and critically evaluate the system they are part of and the role they play within it.

The actor as 'bricoleur'

Following a crisis, actors are left with ideas and institutions that no longer provide solutions to their economic problems. What is their to be reflexive about, if the existing paradigm has collapsed? The answer is that actors use pragmatic reflexivity to hook new ideas on to their existing set of ideas. In this process we may understand the actor as a 'bricoleur', that is, a kind of professional do-it-yourself man or an 'odd job man'. The bricoleur is "someone who works with his hands and uses devious means compared to those of a craftsman" (Levi-Strauss, 1996: 16-17). When the bricoleur tries to solve a problem, the tools and materials he uses are not defined by the problem at hand, but instead picked from the existing repertoire of instruments. Thus, when trying to change or altogether reconfigure institutions, actors' choices are to a large degree fixed by the set of existing institutional principles and practices, and so “the new institutions that actors build resemble the old ones by virtue of their containing many elements from the past” (Campbell, 2004: 70). Using the image of the bricoleur to explain evolutionary development in economic governance, Campbell (1997) argues that the concept of bricolage emphasises “the innovative and creative side of institution building by drawing our attention to the fact that bits and pieces of *several* legacies...are creatively combined in a variety of new ways...the concept of bricolage captures how institution building is a process of *dynamic innovation*” (p. 22, italics in original).

Bricolage is an important part of any actors' handling of both new and old knowledge. As Freeman (2007) argues, actors work across different epistemological domains, “piecing together' what they know from different sources in different ways” (p. 485). This applies no less to the political actor that faces multiple constraints and often

cross-pressures - for example to conduct consistent economic policy that satisfies both business interests and the public at large, while at the same time answering to a functional problem-solving logic (Carstensen, 2010c). The actor uses instruments “as he or she goes, keeping them until they might be used. Each is shaped in part by its previous application but remains inevitably underdetermined, imperfectly understood, open to manipulation for whatever purpose is at hand” (Freeman, 2007: 486). Not rarely do officials need to combine what from a rationalist view point are incommensurable types of knowledge, which makes it necessary to cast different understandings as more coherent than they really are.

Actors are, so to speak, forced to be creative, because sets of ideas can only act as *guides* to, not determinants of, their own application (Bevir, 1999: 238). When actors are confronted with phenomena apparently inexplicable within the premises of their existing ideas and beliefs – economic crises being an extreme example of such instances – they draw on ideas already present in their set of beliefs. Ideas provide us with a world view that structures our perception of the world, and we cannot suddenly put this world view aside to take on wholly different ideas. Like bricoleurs actors thus recombine ideas and hook novel ideas to old ones to get new answers to their problems. The image of the bricoleur provides us with an answer to how actors respond to the changed ideational and institutional circumstances connected to economic crisis: they resort to the ideas that have informed their actions until the crisis occurred. Actors can on the one side think reflexively about the ideas they use and combine them in new ways in their effort to reduce uncertainty, and on the other side they cannot reject the ideas that for years have structured their intersubjective communication about economics.

The structure of ideas

This conception of how actors use ideas to reduce uncertainty in times of crisis also has analytical consequences for our understanding of the structure of ideas. We thus see a discord between our understanding of actors as bricoleurs who creatively put ideas together in new combinations, and the common conceptualisation of ideas as coherent, stable and defined by a core. At least partly due to the inspiration drawn from Kuhnian science paradigms, primarily brought into policy studies by Hall (1993), the conventional ideational perspective holds that contradictory ideas – hence also new and old ideas – can neither function together nor co-exist in the same set of ideas (Carstensen, 2010c, see also Schmidt 2010b). If indeed ideas are placed inside distinct and incommensurable paradigms, then it would be difficult to imagine actors using old and new ideas together in an effort to reduce uncertainty. Thus, rather than seeing ideas as incommensurable, coherent and defined by a core – as in much mainstream ideational research – we should consider ideas as structured relationally through webs, that is, that the meaning of an idea is generated from the web of ideas it is part of (Bevir, 1999; Bevir and Rhodes; Carstensen, 2010a and b; Freedman, 1996).

Because ideas are not structured by a core – which would effectively close them off from the ongoing social battles in society, leaving them “beyond the reach of the play of meaning” (Torfing, 1999: 85) – ideas carry an inherent openness. The meaning of an idea derives neither from logic nor experience, but rather from the other ideas that it is related to. Take the idea of 'equal rights'. Such an idea may refer to equal pay, questions of ethnicity or equality between the sexes – or possibly to something completely else. The relations of meaning are potentially endless (Bevir, 1999). If we take on this relational understanding of ideas, we see how the set of ideas that as part of an economic crisis 'fails', is not necessarily incommensurable with the new ideas that come along. In principle all ideas can be combined, although there are constraints of both logic, convention (Bevir, 1999; Freeden, 1996) – and, indeed, politics (Carstensen, 2010c).

When actors hook new ideas on to their old ones they have to be adjusted. As Bevir (1999: 235) puts it, the content of the existing beliefs of actors, “will make certain hooks available to them...People can integrate a new belief into their existing beliefs only by relating themes in the former to some already present in the latter”. In other words, the incorporation of new ideas into the existing set of ideas is no easy task, but it is possible and necessary in the effort of actors to handle uncertainty. When we understand ideas as dynamic, flexible and malleable, we also see how actors are able to combine them, when a set of ideas fail as part of an economic crisis

The financial crisis in Denmark

To demonstrate the strength of this analytical approach in grasping the political change following institutional and ideational crisis, this section analyses how Danish politicians and officials reacted to the financial crisis of 2008. The analysis, empirically based on interviews with officials¹ and analysis of policy documents as well as media coverage in the period, focuses on a very short period: from the fall of Lehmann Brothers on the 15. September 2008 – which made the financial crisis generally accepted by politicians, officials and the financial sector – to the 5. October 2008, where the Danish government presented a state guarantee of all deposits in Danish banks. This means that the analysis neglects a second major policy crafted to support the struggling Danish bank, namely the recapitalisation programme presented on the 21. January 2009, as well as the change in regulation of the financial sector that followed in 2009 and 2010. The reason is that we are mainly interested in how actors handle the uncertainty that follows immediately in the wake of a crisis of ideas and institutions. Analysing how officials and politicians handled the crisis in this

¹ The two informants, both senior officials in the Ministry of Economy and the Danish National Bank respectively, were conducted in March and April 2010 as part of data collection for the Ph.D.-project “The politics of incremental ideational change”, carried out at the Department of Economics, Politics and Public Administration, Aalborg University.

most stressed period, lends insight to how actors handle the institutional and ideational vacuum to move forward despite great uncertainty.

From crisis to bailout in Denmark

There are many ways to define a crisis (see e.g. Hay, 2001; Gamble, 2009). In this analysis the start of the crisis is defined as the point where actors perceived a crisis. This point can relatively clearly be identified as the fall of Lehmann Brothers on the 15. September. 2008. When the American government led Lehmann Brothers declare bankruptcy, the money markets 'froze' which threatened the existence of a number of banks and perhaps even the banking system as a whole. At least this was the view of Danish politicians and officials. As director of the Danish National Bank, Nils Bernstein, explained a month after the state guarantee was issued:

“Suddenly we saw the money market freeze, and this meant that we had to act fast. This put things into gear – now we not only had to handle one bank at a time, now we had to act on a broad front” (quoted in Lunde, 2008²).

Danish banks had for some time experienced difficulties raising liquidity on the money market – the National Bank holds that problems started to mount in the summer of 2007 (Nationalbanken, 2008a) – but the National Bank had focused its effort on dealing with a couple of small and midsize banks, most significantly *bank Trelleborg* and *Roskilde Bank*. Because of their aggressive lending policies and wide scale involvement in the property market, these banks were particular exposed to the downturn in property prices and the ensuing problem of raising sufficient capital (Østrup, 2008a). Thus, their problems were not directly related to the looming financial crisis, but the volatile interbank money market did not make things easier for the two banks. Moreover, to ease the ability of banks to live up to the requirement for liquidity, the National Bank decided in May 2008 to allow borrowing on loan bonds, which would then count as part of the liquidity of the bank (Nationalbanken, 2008a). Despite the problems of raising liquidity and capital in the financial sector, in the end of April 2008, the National Bank judged the Danish financial sector as generally robust:

“The growth in the loan portfolios of the banks and the reduction in capital buffers of the last years make the banks more vulnerable. The Danish financial sector is judged to be sufficiently resistant to resist significant economic shocks.” (Nationalbanken, 2008b: 7).

² Author's translation. All following quotes are translated by the author unless stated differently.

When the crisis escalated in September 2008 following the fall of Lehmann Brothers, the National Bank and the political system acknowledged within a couple of days that the above judgement of the robustness of the banking sector had been overly optimistic, and it was deemed necessary to find a model that could sustain the credibility of the banking sector as a whole (Nationalbanken, 2008a; Lunde, 2008).

The state guarantee that was presented on the 5. October 2008 was worked out between the Ministry of Economy, The Danish Bankers Association, the government and the opposition. The negotiation process, which – with an eye to the sensitivity of the financial markets – was marked by a high degree of secrecy, was carried through on a very tight time schedule. At first negotiations moved slowly. According to media reports the larger banks were eager to make the terms of acquiring liquidity restrictive. This would make it difficult for smaller banks to attain new liquidity, which in turn could lead to a consolidation of the banking sector with buy-ups of smaller banks. However, around the beginning of October, the National Bank and the government realised that the crisis was escalating, and it had to move quickly. In this regard the state guarantee of Ireland³ and other European states was especially important. Following the Irish state guarantee, investors began withdrawing their money from a number of Danish banks on the Irish market, notably Denmark's biggest bank, *Danske Bank*. Some Danish banks also complained that their customers were withdrawing money to place it in other banks deemed safer. From that point it took only three days to negotiate a solution between the government, opposition and financial sector (Nyhedsbrev for bestyrelser, 2008; Benson and Hansen, 2008). On the 5. October 2008 the government was thus able to present a broad political agreement that was fast-tracked into law on the 10. October 2008. During the negotiation process the government sought to establish a political truce with the opposition, succeeding only to some degree. The Social Democrats thus proposed among other things a ban on stock options for bank managers, a depositor guarantee of 400.000 DKr and the establishing of a 'distress fund' of 10 billion DKr financed by the banking sector. On the 2. October this led to fierce debate between the government and Social Democrats (Lehmann, 2008; Svane, 2008). In the end none of these ideas were included in the bailout and the Social Democrats took part in the agreement.

The chief aim of the model – that was put forward in an agreement between all parties in parliament (except the small socialist party, Enhedslisten) and the banking sector – was to secure the credibility of Danish banks through a two-year state guarantee of all deposits, in turn enabling financial institutions to gain access to liquidity through short-term loans from other Danish banks as well as on the interbank money market. A considerable portion of the guarantee, a maximum of 35 billion DKr, was financed by the banking

³ The Irish state issued its guarantee of deposits on the 30. September 2008. The guarantee covered six named banks and no foreign banks. The Irish state issued its guarantee of deposits on the 30. September 2008. The guarantee covered six named banks and no foreign banks.

sector, and expenses beyond this would be paid by the state⁴. Moreover, the state established a state-run liquidation company (*Finansiel Stabilitet*) that was to sell or dismantle insolvent financial institutions and secure that creditors received their deposits. Finally, the Danish FSA was granted additional 10 million DKr to strengthen their supervision of banks. It took some time before the model resulted in lower interest rates on the interbank money market and in loans between Danish banks, and a significant difference between the secured and unsecured money market interest rate was expected to persist well into 2010 (Nationalbanken, 2009). Moreover, in the first quarter of 2010 the banks have generally kept their credit policy as tight as in 2008 and 2009 (Nationalbanken, 2010).

Muddling through to a bailout

As the time span indicates, the work that preceded the state guarantee was carried out under very hectic circumstances. As a senior officials employed at the National Bank describes it:

“I believe the fact is that in the The Danish Bankers Association people were very worried. 'Let's get some kind of useful solution on the table, and we'll move on that'. That was what happened. And of course getting the support of the political parties”. (Interview with senior official 1).

The question is how Danish officials and politicians reached the state guarantee as the solution. How were the political actors able to craft a policy – that was significant on any measure: monetary as well as ideational – in the face of uncertainty and extreme complexity? The short answer is that they drew on their existing repertoire of ideas and combined these with ideas imported from abroad.

In the summer and fall of 2008 there had already been discussions about how to recapitalise Danish banks. Thus, the issue was not totally new to officials, but no really useful policies had been identified before the 15. September. The National Bank was able to draw on their experience with guaranteeing specific banks⁵, that is, acting as 'Lender of Last Resort'. This principle, which dates back to the work of Walter Bagehot (1873), states that against good collateral a central bank should be willing to provide emergency liquidity to illiquid but solvent banks at a high (penalising) interest rate. This principle had been

⁴ The financial sector was to inject a maximum of 35 billion DKr into a fund. A potential deficit in the fund would be financed by the state – and a profit in the fund would be reaped by the state. In 2009 the state expected to turn a profit from the guarantee, despite the considerable funds used to dismantle *Roskilde Bank* (*Finansiel Stabilitet*, 2009). In this way the state guarantee may very well turn out profitable for the Danish state.

⁵ These experiences came from the work on the previously mentioned *bankTrelleborg* and *Roskilde Bank* as well as numerous smaller scale bank crises in the 1980s and 1990s (see Østrup, 2008b).

practised when the National Banks handled the problem ridden *bankTrelleborg* and *Roskilde Bank*. The already mentioned expansion of borrowing possibilities – that was issued on the 5. May 2008 – and later a further expansion on the 26. September, as well as a relaxing of the demands for acceptable collateral, are examples of policies issued by the National Bank that were in accordance with the normal role of the National Bank. That is, before and after the crisis was realised around the 15. September, the National Bank used instruments that were part of the crisis-ridden institutional and ideational setting.

However, the state guarantee obviously constitutes a marked break with anything that comes close to standard financial policies in Danmark. It is near to impossible to identify a specific source of the idea – it was born out of discussions and bargaining between the Ministry of Economy, The Danish Bankers Association and the government (Interview with senior official 1). However, if one takes a look on the content of the bailout, both older and newer ideas are identifiable. The new idea is of course that the state for a temporary period guarantees all deposits. Where did the idea come from? An obvious answer is that politicians and officials looked abroad. The bailout was pushed forward by the Irish state guarantee – which put pressure on Danish banks on the Irish market, most notably Denmark's largest bank, *Danske Bank* – and taking the interdependence of the financial markets into consideration, it was only natural to look to how other nations solved their liquidity crisis, a notion that is also confirmed by the aforementioned senior official (Interview with senior official 1).

Politicians and officials, however, were very keen to underline that indeed the guarantee was temporary – or as a senior official puts it: that there is a world after the 1. October 2010, when the state guarantee ends (senior official 1). One example of this can be found in the National Bank's expansion of the possibilities of borrowing. Here the penalising two percent interest rate does not really make sense considering that the banks had a state guarantee to back up their loans. However, it was important for the political system to signal to the banks that a time would soon come, where things would return to normalcy. Therefore they stuck to the principle of Lender of Last Resort, where the central bank offers liquidity to solvent banks against a penalising interest rate. Another example is the 10 million DKr strengthening of the Danish FSA, which also lies within the bounds of the existing structure.

It could also be argued – which one senior official does (Interview with senior official 2) – that the state had drawn an important lesson from the bailout of *Roskilde Bank*, namely that it should do its best to get the financial sector to pay the bill for the bailout. The saving of Roskilde Bank cost 6 billion DKr and the financial sector paid only 750 million DKr (Finansiel Stabilitet, 2009). The state guarantee, then, was thought to include both an incentive for the financial sector to minimise the losses from the financial crisis as well as a possibility for the state to earn from the guarantee (Interview with senior official 2). Thus, in the process of introducing a radically new idea, officials and politicians took

pains to uphold the existing institutional and ideational setting while adjusting it through the use of ideas imported from abroad. In the bailout of Danish banks we thus see both new and old institutional and ideational elements drawn together that the political system hoped and believed would solve the immediate liquidity crisis.

What about economic theory?

The uncertainty and time pressure that characterises the period between the onset of the crisis and the presentation of the state bailout of banks naturally impacts greatly on the possibility of conducting a thorough investigation of different models to determine which would apply best to the Danish case. The work on the state guarantee was conducted over a period of roughly two weeks, the three last days with intense negotiations between the government, opposition and The National Banking Association. The preliminary work on the state guarantee, where the general model was identified, was not, according to a senior official, structured in a fashion where

“now we have a problem, and so we sit down and make an economic analysis, and we investigate what has been done in all kinds of different countries, and weigh *pro et contra*, and from that appears a synthesis, and then you have the optimal model. I believe we were very far from that. It was a fast solution.” (Interview with senior official 1).

and later in the interview:

“my own view is that three weeks before there was no one who had imagined that it (the state guarantee) would have been made. It was made fast. Not necessarily in a sloppy way, but it was definitely made fast.” (Interview with senior official 1).

Put differently, theoretical stringency was an unaffordable luxury in such turbulent times. What counted was that the model would solve the immediate liquidity problem in Danish banks – that is: to regain access to the interbank money market – and that it gained the acceptance of government, opposition and the financial sector. In other words, the work answered to a practical and political logic.

To sum up, how did Danish politicians and officials handle the uncertainty brought on by the financial crisis of 2008? First of all it was a case of ideational and institutional 'muddling through' (Lindblom, 1959; Carstensen, 2010c). The need to move forward fast dictated that there was no time to thoroughly think through all the different possible models. Instead, working under extreme time pressure, actors had to use the ideas that were available. Second, because no new ideas had yet come along that could restructure

the institutional setting, and because actors felt it necessary to move fast, politicians and officials resorted to what they had at hand, notably previous experiences with specific bank guarantees; expanding the borrowing possibilities in the National Bank; beefing up the Danish FSA; and a state guarantee seen in use abroad. In this way new and old ideas were joined in a policy that a senior official judges to be ungraceful in economic theoretical terms, but none the less relatively effective in defrosting the Danish bank's relation to the interbank market (Interview with senior official 1).

Conclusion

Economic crisis poses severe problems for political actors, because they can no longer depend on the ideas and institutions that normally structure their interaction and perception of the world. Crisis thus leave actors in a state of uncertainty, which makes it difficult to move forward to a new institutional and ideational setting. This paper has provided an argument about how actors overcome this uncertainty through bricolage. When we employ the image of the actor as bricoleur, we are better able to identify ideational supply in times of crisis, because we get closer to the mechanisms that drive actors' response to crisis and uncertainty. In the previous section we saw how according to existing ideational theories about economic crisis, either actors have new policy ideas ready, when the existing paradigm shows itself to be failing (e.g. Hall, Schmidt), or actors simply do not know what to do, and ideas somehow come to their help (Blyth). Considering that we are dealing with crisis, it seems reasonable to stick to Blyth's version of uncertainty as 'Knightian' uncertainty. If an economic crisis entails a crisis in the ideational setting – as all the theories reviewed above seem to suggest – then actors cannot simply jump to the next island of ideational stability. But the question remains how actors handle uncertainty so as to arrive at a new set of ideas. Employing an understanding of actors as bricoleurs provides us with an answer: they consult their existing set of ideas to interpret the crisis as well as look for what is at hand. In the case of the financial crisis in Denmark this entailed looking abroad as well as reinterpreting the existing repertoire of policy-instruments. Given that the old ideas no longer provide answers to the anomalies that actors are confronted with, how can they use their existing set of ideas? The most direct answer is that they have no alternative. Actors cannot discard the set of ideas they have used for years to interpret their world and in the next moment take up a new set of ideas. Instead, the process is gradual, because actors need to find hooks in their existing web of ideas on which to hang new ideas (Bevir, 1999). The dramatic breakdown of the institutionalised ideas never occurs, because actors draw on the previous set of ideas to get hold of new ideas.

So actors are neither perplexed by uncertainty – indeed, the political logic renders much hesitancy impossible – nor are they able to pull wholly new ideas off the shelves and start fighting over them. Although in this way uncertainty makes actors resort to

existing ideas, this does not close them off from new ideas. When a discourse of crisis has been established (Hay, 2001) – creating a window of opportunity (Kingdon, 1984) – policy entrepreneurs start pushing their new ideas to politicians that are open to new solutions. Actors can thus start “persuading agents in positions of institutional authority of the correctness of one particular diagnosis of the crisis at hand among competing models” (Blyth, 2007: 762). But we should note how the construction of causal stories about the economy that provide actors with a new interpretive framework cannot stand alone. Actors need their 'old' ideas to comprehend new ideas, and so the structure of the existing set of ideas influences which ideas are put to use in the construction of new institutions. This should not be taken to imply that the solutions actors find by recombining existing elements of meaning and hooking them on to new ideas are necessarily effective ideas. As Freeman (2007) points out the experience of combining different ideas and forms of knowledge “is as disorienting as it is potentially creative” (p. 492). However, given the uncertainty surrounding crisis, the use of old instructions for new structures is the only viable solution for actors.

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