GLOBAL FINANCE IN CRISIS[1]

MARTIJN KONINGS
University of Sidney

LEO PANITCH
York University, Toronto.

ABSTRACT.
This essay examines the questions raised by the present financial crisis through an enquiry into the institutional foundations of American finance. We view with some skepticism strong claims concerning the disastrous outcome for the structural dynamism of the global financial system and America's position in it. Many critical political economists tend to take the system of global financial markets as their point of departure and then locate the US in this system. Such approaches, however, generally fail to do justice to the decades-long build up of US financial power and do not capture many of the organic institutional linkages through which the American state is connected to the world of global finance and which are responsible for its imperial sprawl. In many ways, financial globalization is not best understood as the re-emergence of international finance but rather as a process through which the expansionary dynamics of American finance took on global dimensions. Because the present system of global finance has been shaped so profoundly by specifically American institutions and practices, it will not do to evaluate the changes and transformations of this system on the basis of either an abstract, generic model of capitalism or mere extrapolations from conjunctural crises. Crisis and instability are part and parcel of the dynamics of imperial finance and so are the managerial capacities developed by the US state. The most important questions that should occupy critical political economists therefore have to do not with what appear to be external challenges to US financial power (or the putative opportunities for progressive change opened up by them), but rather relate to the ways in which the imperial network of intricate, complex and often opaque institutional linkages between the US state and global finance is managed and reproduced.

KEYWORDS: United States, imperialism, finance, globalization, subprime crisis

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INTRODUCTION.

The current crisis has exposed some key networks of the central nervous system of global finance. Lending by commercial banks and mortgage providers has come to a halt and even the operations of hedge funds and private equity funds – until recently seen to be operating in a rarefied world of high finance largely unaffected by events in the real world – have been brought up short. In addition, such contradictions have been transmitted across the world with unprecedented speed. The crisis of the British mortgage bank Northern Rock in the summer of 2007, while very much a product of integrated global financial markets, produced images (replicated a year later with the failure of the IndyMac bank in Southern California) that negated pretty much everything that modern people have come to believe about the credibility of money and the seemingly autonomous operations of the financial system. The pictures of long lines of people waiting to empty their bank accounts were reminiscent of the bank failures of the Great Depression and peculiarly disconnected from the modern twenty-first-century financial system with its highly sophisticated techniques for risk and liquidity management.

Moreover, this crisis has emanated from the heart of empire – unlike the crises during the previous decade (such as the Mexican, Asian, Russian and Argentinian ones), which seemed bound up primarily with the inability of developing countries or emerging markets to shoulder the discipline needed to participate in a fully liberalized world order. Other crises – such as the LTCM crisis – played themselves out entirely at the level of high finance. The end of the dot-com boom and the stock market run-up it sustained already had a serious impact on the value of Americans' investment portfolios. But it is the subprime crisis that has really exposed the connections between such a key component of the American dream as home ownership and the mechanisms of financial expansion and innovation. To many, the situation is yet another illustration of the fundamentally unsustainable nature of the neoliberal system of Americanized global finance, reliant as it is on massive mountains of virtual money and paper-debt created through financial engineering and speculative practices that appear so disproportionate in relation to the wealth-generating capacity and manufacturing competitiveness of the US economy.[2]

But the present system of global finance has been shaped so profoundly by specifically American institutions and practices that it will not do to evaluate the changes and transformations of this system on the basis of either an abstract, generic model of capitalism or mere extrapolations from conjunctural crises. American financial power did not latch on to an existing system of international finance but shaped this system to its core through a long history of imperial expansion. The decades-long build up of American power has been punctuated by multiple crises and instabilities, but this has primarily been a reflection of the depth of the transformation effected and the dynamism generated by American-

[2] For instance, Blackburn (2008).

style financial globalization. Crisis and instability are part and parcel of the dynamics of imperial finance and so are the difficulties experienced by the US state in managing them.[3] Neither the crisis nor the managerial difficulties are likely to prove fatal unless they generate the kinds of social and political conflicts that shake the system at its core.

All too often, and with especially good reason at the beginning of the twenty-first century, it is US military interventions that draw attention to the imperial nature of the American state. Yet the proper measure of American empire today needs to include the quotidian ways US power is embedded in and operates through the structures of global finance, and the central role it has played in the expansion of international financial markets and in managing the economic crises that emanate from them. While the US position in the international financial system has become a key pillar of modern-day American empire, the institutional connections between the American state and finance have not received as much as attention as they deserve, and as a result the concrete mechanisms through which US power operates in this arena still stand in need of considerable clarification.

1. CHIEF OF THE FIRE DEPARTMENT.

Just as George W. Bush had criticized the Clinton administration during the 2000 election campaign for its proclivity for military interventions in far-flung parts of the world of places of which he had never heard, so did the new Treasury Secretary appointed after the election, Paul O'Neill, openly criticize his predecessor's interventions during the 1997-98 Asian financial crisis. 'He called me "chief of the fire department"', Robert Rubin recounted in his memoir, *In an Uncertain World: Tough Choices from Washington to Wall Street*. 'I liked Paul. I didn't even mind him calling me chief of the fire department. But as I read the story, I said to myself: *They say they won't intervene. But they will.*'[4] As Rubin was only too happy to point out, once 'facing the messy reality of global financial crises' starting in 2001 with Turkey and Argentina, the Bush administration did intervene – although, with tensions within the IMF rather less difficult to manage than tensions in the UN, they were rather less inclined to be unilateralist in this facet of the exercise of American imperial power.

As the turmoil in international financial markets began in the summer of 2007, every movement in a vast array of financial markets was closely scrutinized by US Treasury staff massed in front of their flat-screen monitors in the 'markets room'. On August 10th, *The New York Times* reported, Secretary Henry M. Paulson Jr., having 'spent the day in hourly contact with the Fed, other officials in the administration, finance ministries and regulators overseas and people on Wall Street – where until last year he had worked as an executive at Goldman

[3] Panitch and Gindin (2005).
[4] Rubin (2003), p. 297. For an earlier account of Rubin's interventions in the Asian Crisis, see Panitch (2000).

Sachs', orchestrated a coordinated international infusion of liquidity to the tune of hundreds of billions of dollars. Meanwhile, the staff at the Federal Reserve - where the newly appointed Chairman Ben S. Bernanke could draw on his academic work as an economist at Princeton University in the 1980s on how the 1929 crash could have been prevented[5] - were in contact with the European Central Bank, the Bank of England and the Bank of Japan as to the role they would play as 'lenders of last resort'.

Over the ensuing months, the US Treasury would organize, first, a consortium of international banks and investment funds, and then an overlapping consortium of mortgage companies, financial securitizers and investment funds, to try to get them to take concrete measures to calm the markets; and officials in the Federal Reserve would stay in close touch with their counterparts in the other central banks in deciding what they would each do about interest rates in face of the ongoing credit crisis. Both the Treasury and Federal Reserve staff also worked closely with the Securities Exchange Commission and Commodity Futures Trading Commission under the rubric of the President's Working Group on Financial Markets, which since 1988 had overseen such crisis interventions inside the American state. At the same time, they burnished their close contacts, developed over some three decades of coordinated promotion of both financial globalization and crisis management, with the finance ministries and central bankers of the G7, and with those of the twenty-six states organized under the Financial Stability Forum since 1999, in order (as the latter put it in October 2007) 'to enhance market discipline and institutional resilience'.

As the crisis wore on to the end of the year, the central banks of the advanced capitalist states undertook a further highly coordinated provision of liquidity to sustain the interbank market, while the sovereign wealth funds of other states were encouraged to invest directly in Wall Street banks to beef up their capital. And as 2008 began with stock markets in Asia and Europe shaken at the prospect of an American recession, the US Federal Reserve undertook a large emergency cut in interest rates before the New York stock exchange could follow suit. Insofar as this might have caused a vicious downward spiral in world stock markets, the Fed was acting as much as what *The Economist* three years before had called 'the world's central bank' as the American.[6] By March the Fed had undertaken another coordinated move with the other central banks, supplying them with dollars to provide liquidity to their banks, while simultaneously making hundreds of billion dollars more available to Wall Street's investment banks.

Yet even this could not save one of these – Bear Stearns, ironically the lone major investment bank which had refused to cooperate with the Fed-engineered bailout of Long Term Capital Management a decade before. When Wall Street woke up on St. Patrick's Day, greeted by headlines like 'Wall Street quakes as the parade passes by', it was revealed that after all day and night weekend

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[5] Bernanke (1983); Bernanke (2000).
[6] February 3, 2005

sessions – not dissimilar to when in 1998 the Fed had locked the principals of New York investment houses in a hotel room until they jointly agreed to bail out LTCM – the Fed had directed, overseen and guaranteed to the tune of $30 billion J.P Morgan Chase's takeover of Bear Stearns.

It was thus hardly surprising that, by the end of the month, when the Treasury issued its long-awaited 'Blueprint for a Modernized Financial Regulatory Structure' (in preparation since March 2007, before the onset of the crisis), it was primarily designed to 'enhance' the Fed's regulatory authority over the whole financial system, not least over the investment banks for whom it now was so openly the lender of last resort. Nor was it surprising that the US and British Treasuries announced at the same time that plans were afoot to form a working group of their respective officials to regularize the coordination of interventions to stabilize London and New York's intertwined financial markets in which they had informally been engaged for decades. It might be said that the President's Working Group on Financial Markets, for some 20 years euphemistically dubbed the 'Plunge Protection Team' by market insiders, was spreading its remit in face of the crisis of 2007-8, both domestically and internationally.

2. LINEAGES OF US FINANCIAL POWER.

Many accounts of US financial power take the world of global finance and its dramatic expansion since the 1970s as their point of departure and then try to locate the US state within this system.[7] But such an approach fails to do justice to the gradual, decades-long build-up of America's financial power. The roots of the highly distinctive institutions and forms of US finance stem in large part from the fact that America's financial engagement with the world was preceded by a long period of domestic, inward development.[8] This point should not be overstated of course, in light of the international dimensions of American development, all the way from the connections between British and American merchants based on transatlantic trade, to the use of dollar diplomacy in Latin America to open up new economies for American exports and investment in the early twentieth century, to the involvement of American bankers in the financing of Germany's post-First World War reparation payments as well as the American FDI that flowed into Europe by the 1920s. But it is important to recognize how even these externalizations of US finance were accompanied by a series of internalizations whereby foreign systems and credit relations were sucked into the American financial system. This included the way the inflows of financial capital that helped to finance industrialization and railroad construction during the nineteenth century were both employed and transformed by the distinctive domestic dynamics of class and state formation in the US. This determined that at the same time as Britain was at the high point of its international power during the late nineteenth and early twentieth centuries, the United States was able to

[7] Gilpin (1987); Walter (1993); Germain (1997).
[8] Konings (2008a).

engage in a process of relatively autonomous and unprecedented continental expansion.

One key factor in this process of internal development was the role of farmers: unlike pre-modern European farmers, American yeoman farmers were closely connected to market relations and as a result financial relations and institutions proliferated rapidly. But farmers' financial demands were specific to their socio-economic position: their need for mortgage credit and populist fears of financial concentration clashed with attempts by mercantile and financial elites to model America's financial system on the British system (based on short-term, trade-related credit and supported by a central bank functioning as lender of last resort), and as a result the antebellum US financial system often failed to generate sufficient liquidity for banks to be able to function properly. Thus, whereas in Europe the development of finance was seen as removed from daily life and divorced from social struggles (*haute finance*), in the US, political contestations articulated class and finance from the very beginning, and this has had a lasting impact on the nature of America's financial institutions.[9] Precisely because American financial institutions were so hotly contested they ended up incorporating a much wider variety of interests.

The state's role in constituting financial markets, especially from the time of the Civil War onwards, was crucial in turning this into a strength rather than a weakness of US finance. In order to help fund war debts, the Northern government created a national banking system that served to centralize funds from all over the country in New York banks, which were faced with a scarcity of liquid assets and had great difficulty investing their funds. This set in motion a veritable transformation of the mechanisms of financial intermediation that had emerged with the growth of commerce in sixteenth-century Europe and then developed with the industrialization and commercialization of England. The defeat of a stagnating system of hyper-exploitation in the American South (which had been highly compatible with the existing system of transatlantic financial linkages under British hegemony) required and promoted the development of a more coherent, centralized system of financial practices and institutions. American banks after the Civil War turned away from classical commercial and mercantile banking and towards what by the turn of the twentieth century was already identified as a distinctive form of 'financial banking',[10] based on the investment of funds in the stock market and other speculative markets through which American banks had invented new ways to create and access liquidity.[11]

The direct borrowing and lending through the trading of financial instruments which remains to this day the hallmark of the American financial system can in part also be seen to result more directly from farmers' continuing engagement with financial institutions in the post-Civil War era. The institutions created to

[9] De Cecco (1984).
[10] Youngman (1906).
[11] Myers (1931).

organize and run agricultural commodities exchanges over time became so sophisticated and diversified that they would eventually give birth to today's massive financial derivates markets. The Chicago Mercantile Exchange, the world's central futures market in livestock long after the slaughterhouses were gone from Chicago, invented the futures market in currencies after the collapse of the Bretton Woods system of fixed exchange rates; and the Chicago Board of Trade, the world's centre of futures trading in wheat, corn and soya long after grain was no longer stored in Chicago, soon followed by launching the futures markets in US Treasury securities. As the head of the CME, Leo Melamed (who initiated the process in 1971 with the help of Milton Friedman) put it: 'without the cadre of traders who left the known risks of the cattle, hog and pork belly pits for the unknown dangers of foreign exchange . . . [the financial futures revolution] could not have been implemented'.[12]

3. NOT 'FINANCE CAPITAL'.

The fact that the new system of financial intermediation established in the US in the latter part of the nineteenth century was highly market-based and characterized by a self-reinforcing dynamic of speculative expansion also gave rise to a relationship between finance and industry that was rather different from the one that prevailed in Europe. The extraordinary growth of the American domestic market propelled a wave of mergers that was responsible for a tremendous and lasting concentration and centralization of capital.[13] Yet the result was not a system of uncompetitive 'monopoly capitalism':[14] the increasingly large firms remained intensely competitive with one another within the giant domestic market. Key here was the fact that the mergers were financed and organized through the institutions that had been built around the stock market, which exploded during the years around the turn of the century. To be sure, American investment bankers were a key driving force behind these developments and the process was accompanied by the growth of interlocking directorships across finance and industry. But these bankers were nonetheless very different creatures than the German *Grossbanken*, which were much better positioned to take controlling interests in a number of firms, and to function as the glue among them.

Hilferding's theory of 'finance capital'[15] – the institutional combination of industry and banking under the dominance of the latter to limit competition – was premised on the same developments occurring in the US as in Germany. Yet, in the US such a structural restriction of financial competition never solidified. To a large extent, this was due to the intense populist hatred of corporate collusion and the political clout of the antitrust movement. But by the early twentieth century this was backed up by the institutional fact that the relations between

[12] Melamed (1992), p. 43.
[13] Roy (1997).
[14] Baran and Sweezy (1966).
[15] Hilferding (1981 [1910]).

industry and finance were based on what was in principle a publicly accessible open market. While more direct ways of exercising influence were available, the principal relations between finance and industry were mediated by the stock market. The role of bankers was first and foremost in handling corporations' sale of their own stocks and bonds to raise capital or take over other firms. The concentration of capital thus went hand in hand with intense financial competition. In early twentieth-century America, capital accumulation was not dependent on the restriction of competition in the financial sector; nor was it still primarily dependent on the geographical extension of the domestic market. Rather, what became a key source of growth was the deepening of the market – a process facilitated and sustained by the very same market-based financial institutions and practices that prevented a German-style organized capitalism.

With the defeat of the late nineteenth-century challenges that had emerged from what was then the most industrially militant working class in the capitalist world as well as from the radicalized farmers' populist movement, US capitalism entered the twentieth century demonstrating a remarkable capacity to integrate and subsume small business, professionals, middle-class strata and working-class consumers.[16] On this basis, the US developed the industrial innovations that became identified by the first decade of the twentieth century with Taylorism and Fordism – both of which reorganized mass production so as to make a high-wage proletariat functional to industrial capitalism. These organizational changes were not confined to the organization of the corporation and the workplace but penetrated the household and personal lifestyle. By the late 1920s one in five Americans owned a car, and 60 per cent of these cars were bought on instalment credit. Edwin Seligman's *The Economics of Installment Selling* in 1927 captured the ethos of Fordism in the new mass consumer age. He extolled credit-based marketing for increasing 'not only consumers' capacity to save but also the desire to save'; indeed, '[t]he family with car payments to make would be forced to work hard to make the payments'.[17] This was crucial in the overall explosion in demand for consumer durables that transformed the retail sector with the aid of a massive advertising industry, whose expenditures at the end of the 1920s were five times what they had been pre-World War One.

The specificities of American finance's engagement with labour, capital and the state were such as to give rise to an unprecedented expansion of the financial system. The rise of consumerism, the corporate revolution in American industry and the exponential increase in government expenditure (induced by war and the regulatory imperatives created by an industrializing society alike) fuelled a demand for credit and financial services that banks and other intermediaries were in an excellent position to meet. The federal government was both market participant and regulator in this process. The constitutive relation between state and financial markets was especially seen in the creation of the Federal Reserve as an attempt to manage the expansionary but volatile dynamics of the financial

[16] Sklar (1988).
[17] Calder (1999), p. 252.

system.[18] While it would take the better part of the century for the Federal Reserve to become the uniquely powerful actor that it is today, from the beginning it changed the institutional configuration of American finance – not least by amplifying the power of the Treasury far beyond the role of the government's bookkeeper and fundraiser. With the Federal Reserve's policy instruments enlisted in the service of the Treasury's funding operations, the dramatic growth of government debt over the course of the twentieth century gave domestic US financial markets a huge boost. While economists tend to think of government borrowing in terms of its tendency to 'crowd out' private financial activity and lending, in the US the financial operations of the government have always been a key element in the expansion of financial markets at large.

This meant that as the twentieth century progressed it saw the construction of an ever denser network of organic, even if also contradictory and conflictual, institutional linkages between the American state and financial markets. The institutional configuration of the Federal Reserve and the Treasury with private financial intermediaries was crucial in this regard. This is not say that this relationship was a stabilizing one for the economy – as was abundantly proved with the 1929 crash. The Federal Reserve and Treasury's aggravation of its consequences significantly contributed to the Great Depression both in the US and internationally.

4. THE NEW DEAL ERA.

The New Deal's stabilizing financial reforms, even while emerging out of the class conflict that resulted from working-class mobilization in the wake of the disappointment of their expectations fostered by 'the American dream', once again showed the intricate interplay between class and finance in the US. The New Deal was marked by the idea that the expansionary dynamics of American finance needed to be actively managed, rather than suppressed. It put limits on competition and speculation, but the objective and effects of this were not the general suppression of finance but precisely the fortification of key financial institutions and so an enhanced capacity to regulate the dynamics of expansion.

American finance in the early twentieth century was characterized by highly expansionary and poorly regulated dynamics: instability and the concentration of financial power were widely seen as a consequence of financiers' ability to gamble recklessly with massive amounts of 'other people's money' (in the phrase used by progressive lawyer Louis Brandeis).[19] The Pujo Congressional Committee was charged with investigating the practices of what had become known as the 'New York Money Trust'. Generating great public interest, it uncovered monopolistic practices, a high degree of concentration, a web of

[18] Livingston (1986).
[19] Brandeis (1967 [1914]).

interlocking directorates and outright corruption. A couple of decades later, after the Federal Reserve had proved itself incapable of balancing the dynamics of American finance and curbing its excesses, the Pecora Congressional Committee uncovered a range of shady financial practices and connections. Indeed, Wall Street bankers' intimate relations with the New York branch of the Federal Reserve System seemed to work primarily to further their own interests. Nor did the revelation that J.P. Morgan's son Jack had not paid any income tax during the two preceding years do much to improve the public's opinion of New York financiers' moral character.

But the New Deal reforms did as much to protect the financial services sector from these popular sentiments as they responded to democratic pressures for reform. The regulatory system that was imposed after the New Deal made the financial services sector much more transparent and accountable, but this increased accountability was organized through bodies representing financial capital's various sectional interests. The New Deal restrained competition and the excesses of speculation not so much by curbing the power commanded by finance but rather by promoting professional self-regulation and vesting private actors with quasi-public authority. In this way, self-regulation became a means to not merely shield financial markets from democracy but to make it positively serviceable to them. That is, the New Deal legislation and regulations reassured the American public that technical matters were now in safe, professional hands,[20] and this faith was an important factor driving the growth in public participation in financial markets.

Thus, while the New Deal was certainly a progressive response to social instability and discontent, it should not be conceptualized primarily in terms of the Polanyian re-embedding or social-democratization of American capitalism.[21] Indeed, the New Deal reforms were oriented towards promoting (rather than reducing) the working classes' integration into and dependence on the financial system. This was most conspicuous in – but by no means limited to – the creation of the Federal National Mortgage Association (Fannie Mae), charged with securing the availability of cheap mortgage credit through the securitization of mortgage loans. Together with the expansion of government debt and corporate debt during the 1930s, this meant that American finance was in full motion by the time the Second World War started. Moreover, the war itself gave a huge further boost to these dynamics.

The New Deal was in turn crucial to the nature of the imperial project embodied in the post-Second World War US state. We can only fully understand the dynamics of post-war international finance – including the nature of the neoliberal era – if we have a proper understanding of the transformation of the American state during the New Deal and the war – which was far more complex than can be captured in conceptualizations of states and markets as external to one

[20] Wang (2005).
[21] Polanyi (1957); Blyth (2002).

another and requires an understanding of some of the basic historical features and dynamics of the American financial system. The wartime American state, strengthened by the capacities it had developed through the New Deal, effectively rewrote the rules of global finance as part of its planning for the post-war world. Insofar as the Treasury's Keynesian economists took the lead here, this involved no little tension with Wall Street. But the compromises that emerged, even in the Bretton Woods agreement itself, let alone its subsequent application, need to be understood in the context of what the New Dealers themselves called the overall 'grand truce' with business.[22] A resilient US financial capital was not external to the constitution of the post-war Bretton Woods order: it was embedded within it and determined its particular character.

This crucial dimension of the reconstruction of the international financial order after the Second World War has received too little attention. The notion of 'embedded liberalism'[23] in particular fails to capture what made these market structures and institutions qualitatively different from those that had prevailed during the previous wave of globalization under British hegemony. Moreover, embedded liberalism has served as the foundation of an overly-stylized periodization of the half century after the Second World War into two highly distinct orders, as if the Bretton Woods era and the era of neoliberal globalization had nothing in common.[24] Linking the two eras was the evolution of the American informal empire and the development of financial capital under its aegis. With the system of private international payments largely defunct, the US used governmental capital flows outside the Bretton Woods system as a lever to influence the European pattern of post-war reconstruction. Thus, during the first years after the Second World War the penetration of European economies by US capital worked primarily through the institutions of the nation-state: the diffusion of American imperial power occurred through the internationalization of national states.

The political economy literature has always taken the prominent role of the national state in the immediate post-Second World War period as evidence of the limits to economic and financial globalization.[25] But it is much more accurately viewed as indicating a particular *form* of imperial globalization. National economies and capitalist elites depended to an ever greater degree on states whose key institutions and capabilities had already been internationalized and whose functions were profoundly imbricated with the reproduction of American empire.[26] In other words, internationalization should not be opposed to the Fordist model of nationally oriented development; instead, it occurred to a significant degree *through* that model.

[22] Brinkley (1995), pp. 89-90.
[23] Ruggie (1982).
[24] Panitch and Gindin 2008; Lacher (1999).
[25] Ruggie (1982); Helleiner (1994); Marglin and Schor (1992).
[26] Panitch and Gindin (2004).

If the 'liberal' aspect of the concept of 'embedded liberalism' leads to a failure to capture important aspects of the internationalization and Americanization of European economies, so does the notion of 'embeddedness' fail to capture important dimensions and sources of American financial power.[27] For one thing, the dollar was the only convertible currency and New York was the only open financial centre, so foreigners wishing to float bonds had little choice but to turn to the US. More to the point, however, by the time European counties had recovered sufficiently to restore convertibility, the American financial system had already gone through almost two decades of domestic financial growth – propelled by industrial recovery, heavy government lending and the progressive integration of ever more layers of the American population into the financial system. The role of the Federal Reserve was crucial in facilitating the expansion of credit to keep up with the demand generated by Fordist patterns of consumption, production and government spending, further making ordinary people not less but more dependent on the capitalist system.

The dramatic post-war expansion of American financial markets effected a degree of continental integration hitherto unseen, and this contrasted starkly with the situation in Europe until the late 1950s. The origins of the changes that took place in Europe from that time on are best understood not so much in terms of the sudden re-emergence of 'global finance', but rather as part of a process through which the dramatic expansion of American finance began to assume international dimensions. It was the externalization of American practices and institutions that during the 1960s began to transform a conservative system of international payments into an integrated system of expansionary financial markets. To be sure, the enormous growth and export capacity of the European and Japanese economies that the US had sponsored, coincident with military expenditures, foreign aid and the outflow of foreign direct investment from American MNCs to the European market, began to have contradictory effects on the US itself, as a deteriorating US balance of payments produced pressures on the dollar.

This became the central issue of international finance during the 1960s, and it was notable that even when the Bretton Woods system was finally made operative with the return to currency convertibility at the end the 1950s, the IMF and World Bank, which had not been able to play much of a role in addressing the dollar shortage of the previous period, now found that the new problems entirely overwhelmed their capacities. It was the Treasury, the agency principally responsible for the external position of the US and for the status of the dollar, which now emerged as a central player in international finance.[28] This became especially significant towards the end of the 1960s as the Treasury became increasingly aware that the imbalances created by the deteriorating balance of payments and the growing Eurodollar market were not primarily America's own problems, and that the options available to the Europeans and Japanese were

[27] Konings (2009).
[28] Sarai (2008).

very limited. It was in this context that the US broke the dollar's link with gold, and came to recognize that its real challenge was not to fight off imperial contenders but precisely to manage the gyrations of an ever more dynamic and encompassing financial system with New York as its pivot.[29]

Many saw the end of the Bretton Woods system of fixed exchange rates and dollar–gold convertibility as the beginning of a new era of American policy irresponsibility and hegemonic decline that could, in the worst-case scenario, lead to unbridled economic rivalry and a breakdown of the world economy just as it had in the interwar period.[30] Such perceptions were reinforced by the fact that the American state was indeed increasingly preoccupied in the 1970s with questions of domestic economic and financial management.[31] It was once again the distinctive class relations within the American state that proved especially salient in this. The inflationary pressures to which all the capitalist states were subject at the time had little prospect of being stifled in the US via the types of incomes policies secured through trade union cooperation with social-democratic parties in Europe. This left the militancy of a new generation of workers in the US relatively unbridled and enabled them to cash in on productivity increases and drive up wages in line with rising prices.

This contradiction was aggravated, moreover, by the volatile mixture of financial innovation and securitization, as the growth of private pension funds combined with the liberalization of financial services, rising interest rates and the speculative opportunities offered by floating exchange rates. The savings of ordinary people were increasingly invested in mutual funds, and the US government used securitization techniques to promote the extension of mortgage credit. As the tension between inflation and financial expansion played itself out over the course of the 1970s, jeopardizing economic growth and producing pressure on the dollar, both industrial and financial capitalist forces within the US were increasingly drawn towards policies that entailed a drastic restructuring of the American economy of a kind that might bring about a fundamental shift in the balance of class forces in their favor.

It was not that they had done badly under the New Deal regime, only that they had outgrown it. The fragmentation of the regulatory landscape in the New Dear regime had meant that regulatory competition became a crucial promoter of financial expansion and the sheer density of semi-public regulatory authority meant that institutional reform became a key dimension in strategies of financial innovation and the construction of competitive advantage. The postwar recuperation and expansion of the American financial system was best viewed not as a resurgence of the 'high finance' that governed financial globalization under British hegemony, but rather as a process of finance coming down to earth, marked by the ever deeper penetration of financial relations into new

[29] Gowan (1999).
[30] E.g. Block (1977).
[31] Degen (1987).

layers of society. These characteristics of the American financial system had driven its steady growth from the 1930s to the 1960s. But as the dynamics of financial growth began to strain against the New Deal framework by the 1960s, this meant that the patterns of hegemonic socialization and integration and the ideological mystifications used to justify self-regulation devised with the New Deal state came under pressure. The opening up of the financial system also meant that, in certain respects, it – and the many problems generated by self-regulation – became more transparent. New and often powerful financial actors raised questions about the functioning of self-regulatory institutions which served the interests of older, more established actors, and these new actors began publicizing the woes plaguing their competitors and playing up the 'scandals' that beset the New Deal system as financial activity outside the self-regulatory structures continued to grow, and as the institutions of New Deal regulation experienced growing difficulty both in performing their technical tasks and their ability to keep outsiders out.

This had already come to a head by the late 1960s as the growth of trading volume on the NYSE gave rise to the 'back office crisis': the NYSE members' offices handling the paperwork were collapsing under their growing workload, resulting in the failure of several houses and large financial losses for investors. This made it clear that Glass–Steagall did not provide sufficient protection and sparked a Congressional investigation that attracted considerable media attention and provided the liberalization lobby – spearheaded by pension and mutual funds and insurance companies and supported by retail-oriented investment firms such as Merrill Lynch – with a forum to make its case. Under pressure, the SEC responded with a shift away from its support for the cartel-like structures of brokers, investment banks and corporate managers that had dominated capital markets for several decades.[32] In 1975 the SEC abolished the system of fixed-rate brokerage commissions (which had worked to the disadvantage of institutional investors).[33] In the same year Congress passed Amendments to the Securities Acts which strengthened the SEC's regulatory authority by giving it more instruments to intervene in the structures of self-regulation and to enforce competitive market structures, promote market transparency and target insider practices.

The opening up of the securities sector intensified the imperatives of financial competition to such an extent that the banks also embarked on a campaign for deregulation. And they too could link up with the American ideology of the small saver and thus count on considerable popular support to push the programme of neoliberal deregulation further than the administrations of the 1970s had wanted to go. Reagan's neoliberal revolution was a prime example of how financial elites can channel social discontent into their drive for regulatory change. During the 1970s, these business interests funded conservative lobby groups and think-tanks, so fomenting and capitalizing on a popular backlash amongst the white

[32] Seligman (2003).
[33] Lütz (2002), p. 208.

suburban middle and working classes.[34] The right's particular strength was to portray economic problems (such as unemployment, high levels of inflation, the predicament of the savings and loan sectors and the dangers it posed to the home building industry, financial volatility and the declining dollar) as the inevitable result of the excessive regulation of the New Deal framework. But deregulation was in fact re-regulation. Indeed, the neoliberal programme was accompanied by a dramatic enhancement of the US state's control over financial markets. The main piece of legislation was the 1980 Depository Institutions Deregulation and Monetary Control Act: it aimed not only to lighten the burden of regulation, but also to re-regulate the system and so to improve the mechanisms of monetary control.

5. THE NEOLIBERAL TURN.

While the coalition of forces that came to sustain a protracted period of Republican rule in the US was motivated by a broad variety of concerns and prejudices, the changes they effected were spearheaded by a dramatic move at the seemingly technical level of monetary policy-making. Monetarism as a theory had existed for some time, but until the late 1970s it had not been taken very seriously by academics and policy-makers. Paul Volcker, appointed by Carter as Federal Reserve Chairman to shore up his anti-inflation credibility, saw monetarism as offering a useful ideological cover for raising interest rates to a level that would break the back of inflationary pressures by changing the balance of class forces. This was highly effective in bringing inflation down, but this did not happen in classical textbook fashion. The innovation strategies of American financial intermediaries trumped attempts to restrict the creation of money and credit. Rather, the high interest rates – in combination with the opportunities opened up by neoliberal deregulation and trade union concessions and repression – meant that financial markets began sucking in economic activity. American finance exploded as growing government, corporate and household debt were financed by the inflows of massive amounts of funds, most of which came from abroad.[35]

To many political economists, prone as they are to relying on an external understanding of the US state vis-à-vis global financial markets, neoliberalism and monetarism can only appear as the American state's admission of weakness or, at best, an acceptance of external discipline vis-à-vis international financial markets.[36] The understanding of neoliberalism and monetarism advanced here, by contrast, emphasizes the fact that it reconfigured the institutional parameters of American finance in a way that allowed the American state to retain a considerable degree of control over financial markets.[37] Over the course of the post-Second World War period the externalization of American financial practices

[34] Lyons (1998).
[35] Arrighi (2003).
[36] Helleiner (1994); Garrett (1998); Blyth (2002).
[37] Konings (2008b); Newstadt (2008).

and institutions had created such a dense network of linkages between global financial markets and the American state that the latter possessed an extraordinary degree of pulling power – and this remained operative in the course of the transition from the Bretton Woods era to the neoliberal era that succeeded it. The turn to neoliberalism and monetarism was thus a key moment in the constitution of American imperialism.[38]

The dynamics of the neoliberal era tend to confuse most of the spatial metaphors that political economists use to describe processes of imperial integration. Even the idea of externalization, which usefully serves to draw our attention to the process of Americanization, fails to capture some of the dynamics that emerged following the monetarist shock and neoliberal deregulation – which in a sense represented the obverse side of such externalization. The post-Volcker shock pattern of financial globalization also needs to be understood in terms of a renewed and much advanced instance of the process of internalization, as a vortex-like process whereby foreign systems and credit relations were pulled into the American financial system.[39] Externalization, in other words, can create conditions that allow for internalization: globalization operates as the extension of the constitutive forms of one state and their penetration into other polities and economies and so creates a dense network of linkages between global processes of socio-economic expansion and the imperial state, and these linkages have the effect of heightening the policy leverage enjoyed by the imperial state, of increasing its 'pull'. Moreover, the vortex metaphor suggested by the notion of internalization can be used to highlight yet another aspect of the specific nature of American empire: the global expansion of American finance has not only been shaped by the nature of its domestic institutions, but also existed in a relationship of functional interdependence with its internal growth. In stark contrast with the case of British hegemony, the international expansion of American finance always has been inextricably connected with its domestic expansion.

Especially in the neoliberal era, American financial imperialism has functioned by drawing in a variety of heterogeneous and geographically dispersed practices and relations and concentrating them into a space structured by American rules and institutions. This vortex-like quality is what underlies the non-territorial, network-like power of American financial imperialism. Of course, ultimately all metaphors have limits as guides to understanding and it is important not to stretch them beyond what they can accommodate. In particular, none of the above is meant to suggest that the turn to neoliberalism did not involve an imposition of financial discipline. But this was not a discipline imposed by depoliticized international financial markets on the US state, but rather by the US state and its ruling coalitions on the American subordinate classes. This was a crucial condition for the generalization of such discipline internationally by other states and ruling classes in the neoliberal era.

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[38] Panitch and Gindin (2008).
[39] Konings (2008a).

The fact that American finance had attained a new degree of hegemony did not mean that it had become immune to instability, nor did it mean that the financial volatility that came with neoliberalism did not matter to the American state. Even if it had solved the problems of inflation and insufficient capital inflows, it was still experiencing considerable difficulty in managing the dynamics it had unleashed. The debt crisis, the Savings and Loan crisis and ultimately the 1987 crash of the stock market raised the question of how destabilizing the consequences of accelerating financial expansion would be and threw into doubt the ability of the American state to regulate this instability. Moreover, as more and more states inserted their economies into the dynamics of financial globalization and opened their socio-economic spaces to be structured by American rules and practices, this created new sources of instability. For a time it seemed that the US had bought some short-term relief from the pressure of global financial markets at the expense of its own and the world's economic health. This was the heyday of predictions of imperial decline and many felt that the passing of America's international power to Japan was just a matter of time.[40]

But such perspectives were rather oblivious to the flexibility that the US state displayed in addressing these problems and laying the basis for a regulatory regime more appropriate to the new financial dynamics. The Treasury became more active not only in opening up but also in regulating financial markets, and it did so in close consultation and cooperation with the IMF and the World Bank.[41] Since the demise of Bretton Woods, the IFIs had been redefining their roles and by the 1980s were acting as more or less responsible agents of the neoliberal project as well as of American imperial power. At home, repeated US government interventions and bail-outs amounted to an acknowledgement of the US state's responsibility for the soundness of the financial system and created a pattern of stabilizing expectations for the future. It also introduced a major element of moral hazard into the system, which promoted more financial innovation and risk. The Basel Accord response to this by creating regulatory standards for the banks' risk and liquidity-management strategies sought to stabilize global financial markets while reinforcing the structural pro-American bias embedded in their legal framework.[42]

By the early 1990s the expansionary dynamics of American and global finance had been consolidated into a regime that possessed more coherence than most commentators had imagined possible during the previous decade. Domestically, the regulatory fragmentation of the New Deal framework was not so much replaced as reproduced with a broad neoliberal remit, overseen by the Federal Reserve and the Treasury. Internationally, this regime became known as the Washington Consensus, indicating the degree to which the strategies of the IFIs were informed by US interests. In most of the major international crises of the 1990s the US played a key role, partly in bringing on the crisis in the first place,

[40] For example, Kennedy (1987).
[41] Felder (2008).
[42] Rude (2008).

partly in organizing and financing the rescue operations that contained the damage, and above all in writing the rules for the restructuring of states and economies that followed.[43] All this indicated the financial management capacities the American state had been able to develop.

Throughout the 1990s, the most serious threats to financial stability under the imprint of the Washington Consensus seemed to be external. But by the turn of the century, the tendencies to instability were increasingly visible at home as well. The stock market had ridden on the internet boom, and the effects of the dot-com meltdown ramified through American and international financial markets. Critics now charged that the growth of the stock market and the record profits of investment banks had been a result of the artificial inflation of asset prices and that the growth of consumer debt, typically justified in terms of the wealth effect of rising stock market and real estate prices, was also built on quicksand.[44] However, to insist that the dot-com boom amounted to nothing but a massive build-up of fictitious capital is to ignore the extent to which financial expansion was itself structurally and materially grounded as a key part of the economic system. In fact, the speculative functions of American finance increasingly became imbricated, not least through the venture capital component of the dot-com boom, with its more productive roles. Thus, while the bursting of the bubble itself represented a major problem, this did not negate the tremendous profits that had been made and the opportunities opened up by it, many of which continued to play themselves out in other parts of the economic system - not least in the housing and mortgage markets. Meanwhile, the continued growth of consumer debt had as its very real material basis the dramatic increase in levels of inequality over the previous two decades.

6. THE PRESENT CRISIS.

But a new crisis struck in the summer of 2007: the credit crunch that beset global financial markets occurred in the wake of a party of speculation, easy consumer credit and takeover activity that was spawned by the liquidity that the Federal Reserve, in conjunction with other central banks (especially the Japanese), had pumped into the system to prevent a recession after the dot-com bubble burst and through the post-9/11 political conjuncture. It originated in the subprime sector of the American mortgage market and therefore struck at the heart of the imperial financial system: the possibility of converting illiquid mortgage loans into standardized, easily tradable financial assets has always been crucial in improving the ability of American intermediaries to extend mortgage credit. As such, it has been a key driving force behind the growth of American finance in this decade as well as the ever deeper penetration of financial relations into American society – especially as many subprime mortgage lenders found their way into poor, largely African-American neighbourhoods that traditionally had

[43] Burke (2001).
[44] Brenner (2003).

been of little interest to more established full-service commercial banks.[45] Not surprisingly – and reflecting the continuing racial inequalities so endemic to American society and working-class formation – many of these underlying assets turned out to be much less secure than even the rating agencies thought. Given how centrally involved American banks had been in the packaging and sale of these mortgage securities, and how eager many foreign (especially European) banks had been to purchase them, the effects of uncertainty were rapidly transmitted through the inter-bank market and the crisis spread rapidly to other parts of the global financial system.

This has led many to conclude, once again, that the current situation has exposed the shaky foundations of the American financial system, reliant as it is on a mountain of virtual money and paper-debt without the real income streams and wealth-generating capacity to back it up.[46] But such apocalyptic assessments of the consequences of the current crisis for the state of imperial finance should be viewed with some scepticism. For one thing, investors' response to the liquidity crunch has been a classic 'flight to quality': investors' aversion of risk has meant a huge flow of funds to Treasury securities, a virtually riskless financial asset that nonetheless yields an income stream. Moreover, the effects of the crunch were immediately seen to be quite severe outside the US. While several US banks have had to write off significant losses, it was the British bank Northern Rock which first had to deal with long lines of people seeking to withdraw their savings funds in scenes reminiscent of the Depression era. When this scene was repeated almost a year later in California with the IndyMac bank, it was taken into public hands with rather less hand-wringing than had occurred in the UK. IndyMac was the fifth US depository institution (out of a total of 8,494 in operation) to fail since the subprime mortgage crisis began but this was a remarkably small number in comparison with the thousands of banks that closed their doors in the early 1980s or during the savings and loan crisis later that decade. Indeed, the impact of the crisis on the German Landesbanken (regional banks charged with overseeing the German system of local savings banks and operating with effective public guarantees), which had considerable amounts of funds tied up in subprime debt, immediately appeared more serious in 2007 than it did on US regional banks.

In a number of important ways, the present crisis affirms the argument made here. Most fundamentally, the current situation represents an interruption of American capitalism's ability to functionally integrate ordinary people's activities and aspirations into the financial system, and this has had global as well as domestic consequences. Within the US, the crisis has so far been prevented from spiralling fully out of control through the extension of a range of - first implicit and then explicit - government guarantees to American financial intermediaries. And this is where we encounter one of the most striking aspects of the current situation: despite considerable popular anger about these Wall Street bailouts,

[45] Bajaj and Fessenden (2007).
[46] Blackburn (2008).

the concern not to impose such conditions on financial capital that might get in the way of securing their cooperation in getting the system back on track reflects the determining linkages between class and state. American politicians have paid ample lip-service to popular resentment but in this way they also have ensured that the more policy-relevant debates have remained largely technical and instrumental, focused on what can be done to contain the fallout of the crisis and to prevent similar events in the future.'

Notably, when a run on the shares of Fannie Mae and Freddie Mac took place in the summer of 2008, they had no difficulty with a three billion dollar bond issue being snapped up, as investors drew ‘a sharp distinction between the equity and the debt on the assumption the debt is implicitly guaranteed by the US government.’[47] This was not only reinforced by Paulson's announcement that the ‘liquidity backstops would be there in the shape of a flexible government credit line and access to emergency funds from the Federal Reserve’, but also by the ‘instant impact’ the SEC had as it set out new rules that restricted securities firms short-selling the shares of 19 financial firms. The fact that these included, in addition to Fannie Mae and Freddie Mac, such major foreign banks as Barclays, Credit Suisse, BNP Paribas and HSBC as well as American ones such as Citicorp, Bank of America, Goldman Sachs and Lehman Brothers was indicative of the blurring of public and private and domestic and international lines when it comes to the American state's role in financial regulation.[48]

In terms of its international effects, while there is nothing automatic about imperial reproduction, the way this crisis is playing out suggests that it will be contained within the mechanisms through which American financial empire is constructed rather than result in challenges from imperial contenders. The hegemonic integration of most layers of the American population into the financial system has been a major source of strength for the various institutions of American empire. And as long as this pillar, fuelling the mutually reinforcing expansion of American finance at home and abroad, remains in place, instability will be treated as a problem of imperial management rather than as a deep social crisis. It will tend to spark reforms and adjustments but of a kind that are not likely to lead to any fundamental realignment of financial power in the capitalist world order. Thus, the main upshot of the current situation is that the American state finds itself with a peculiar and unanticipated new problem of imperial management: a relatively small amount of bad debt has managed to produce considerable turmoil in the global financial system because no one seems to know who is holding it. Risk, in other words, has been converted into genuine uncertainty. While the short-term outlook is grim, viewed from a longer-term perspective it is not impossible that this could once again turn out to be a major opportunity for financial innovation. This would work to the advantage of those firms that are capable of upgrading and overhauling their risk management

[47] Guha (2008).
[48] Chung and Mackenzie (2008).

techniques within a reasonable amount of time, as well as spur the growth of largely privatized (and almost exclusively American) mechanisms of credit-rating and market governance. Notably, European states have called for a further refinement of the Basel II measures, and this would provide the US with an outstanding opportunity to reinforce the asymmetrical dynamics of the financial system.

It is important to emphasize here that capital inflows into the US are very much motivated by the self-interest of foreign investors. It is less useful to see such inflows in terms of the latter engaging in some sort of sacrifice to come to the aid of a hegemonic power suffering balance of payments problems (which assumes an implausible degree of systemic oversight on the part of investors), rather than in terms of the concrete mechanisms and institutional linkages through which US power is organically embedded in the global economy. The trade deficit that caused so many to worry about the sustainability of US power and liberal world order since the 1960s constituted a problem for the US state, but the capital inflows that financed these deficits proved less erratic, ephemeral or fundamentally unsound than many had predicted – precisely because they were attracted by the comparative safety, liquidity and high returns that came with participating in American financial markets. In the current conjuncture, even as the American financial system is rocked by large amounts of bad debt, most key aspects of this framework of institutional linkages between US power and the world of global finance remain intact. The dollar is still unrivalled as an official reserve currency, as a transactions currency and as the denomination of choice for issues of bonds and stocks. It is the distinctive characteristic of modern imperialism that America's financial problems are not just its own problems. That is to say, foreign investors cannot engage in a wholesale dumping of dollars on to the world market without destabilizing the system as a whole and doing serious damage to their own interests in the process.

For the foreseeable future, therefore, the question is not so much how the US state will ward off an external threat but rather how it will manage and stabilize global financial markets – on behalf of domestic and foreign capital. The illiquidity that hit the Eurozone bond market in the wake of the US subprime credit crisis stands as a sharp reminder that when the US financial market sneezes, international financial markets still catch a cold. As for the much inflated talk that the Euro is about to replace the dollar as the core international currency, the comment of a Bank of America economist at the height of the credit crisis deserves to be heeded: 'Regardless of short-term cyclical fluctuations, the long-term demographic and economic prospects for the US economy and currency are better than for the eurozone. Once the dollar has hit its cyclical bottom, talk of the euro dethroning it will die down'.[49]

[49] Holger Schmieding quoted in Atkins (2007).

7. FINANCIAL CRISES AND POPULIST LEGITIMACY.

Before the onset of the credit crisis, Robert Mundell, the Nobel economist laureate for his work on the relationship between capital flows, exchange rates and monetary policy, who is sometimes known as the 'father of the Euro' for his work on optimal currency zones, went so far, in a speech in China quoted in the *Wall Street Journal*, as to say: 'I think the dollar era is going to last a long time . . . perhaps another hundred years.'[50] Whether this proves to be so will much depend on the capacity of the US state, which significantly hinges on the domestic integrity of the American financial system, and this is closely bound up with issues of political legitimacy. This always stands in need of continuous renegotiation in the US, where democratic institutions reflect and mobilize populist sentiments unconstrained by the more relatively autonomous bureaucracies of other capitalist states. This is by no means to suggest that American institutions allow for a greater degree of popular sovereignty than those in other countries. Rather, the relative openness of the American political system to social interests has always implied a strong need for ideological mechanisms of integration – and these have in turn provided a very sturdy foundation for the capacities of the American state. As such, legitimacy does not result in the restoration of a self-regulating market at the expense of state power, but rather enhances the capacity of the government institutions that sit at the pinnacle of the institutional linkages between state and society.

This is quite the opposite of common notions in the political economy literature that the American state lacks political capacity – that it is a 'weak state'. To the contrary, the American state has developed an extraordinary ability to refract popular discontent and misgivings and redirect them in such a way as to promote hegemonic integration and legitimacy. And nowhere has this been clearer than in the history of American finance, where a tradition of widespread suspicion vis-à-vis the world of high finance coexists with a network of ever denser linkages between Main Street and Wall Street. Indeed, as Moran has argued, 'scandal and crisis' have been a crucial driving force behind regulatory change in the US.[51] Far from buckling under the pressure of popular disapproval, financial elites have proved very adept at not only responding to these pressures but using them in such a way as to create new regulatory frameworks that have laid the foundations for the further growth of business.

In other words, the popular protest and discontent triggered by financial scandals and crises, far from undermining the institutional and regulatory basis of financial expansion, have repeatedly been pacified through the processes of further 'codification, institutionalization and juridification'.[52] Such scandals and crises have often been the object of Congressional investigations, and Congress is a crucial mediator in the relation between popular opinion and the regulation of the

[50] 'Robert Mundell and the Yuan riddle', *Wall Street Journal*, 9 June 2007.
[51] Moran (1991), p. 37.
[52] Moran (1991), p. 13.

financial system. '[T]he potential capacity to legislate, coupled with Congressional oversight of the executive agencies, makes the legislature a key place of struggle between the competing interests in the financial services industry'.[53] This was as much the case with the establishment of the New Deal regulatory framework that governed the expansion of American finance from the 1930s to the 1970s as it was in the transition to the neoliberal regulatory framework of our own time. The New Deal imposed a massive set of rules on American financial actors, but served to promote financial expansion and the ever deeper extension of financial relations into American life. The neoliberal era has seen an increase in the sheer number of rules as well as the authority of some key regulators, and the American state has, right up to the present day, proven capable of re-regulating financial dynamics when the need arose.

Crisis, scandal and reregulation are more pronounced at certain times than others, but they are nonetheless more or less permanent, recurring features of American capitalism: the dynamics of financial expansion destabilize existing norms and practices when they penetrate into new areas of social life, and the resulting popular consternation becomes the occasion for reregulation. Indeed, it is no exaggeration to say that this dynamic became the organizing principle of a neoliberal regulatory regime that was increasingly pre-emptive in nature, not in the sense that this regime is premised on the illusion that financial crises can be entirely prevented, but rather in the sense that measures can be taken that may limit their intensity and their spread. Few crises involved such a wide swathe of US society as the Savings and Loans crisis, but a whole range of crises – such as the debt crisis, the 1987 stock market crash, the LTCM crisis and the bursting of the dot-com bubble – contained a clear potential for widespread instability, unrest and scandal.

The role of Congress remained crucial in all this, especially in such major scandals as were revealed in the Savings and Loans crisis. But the difference between the political conjuncture of 1960s and 1970s and that of the 1980s and 1990s was evident from the enhanced autonomy that government bodies other than Congress had acquired in addressing the problem of financial instability. Whereas before these actors were hamstrung by a web of New Deal regulations that they could do little to revise or overturn, after the neoliberal turn, and especially by the 1990s, they wielded their enhanced institutional capacities to great effect. Indeed, in cases where Congress was deemed to be unhelpful – such as the 1994 Mexican peso crisis, when the Treasury perceived a clear threat to the stability of global and American financial markets – they would even boldly bypass Congress without running into much trouble for doing so.

To say that the neoliberal regulatory regime was increasingly pre-emptive in nature means that the US state had come to recognize the potentially dramatic consequences of a major crisis for the legitimacy of the system at large, so that its actions were no longer primarily determined by the anxieties that financial

[53] Moran (1991), p. 24.

crises induced in Members of Congress seeking re-election. But far from trying to contain financial expansion within specific parameters, it dedicated itself to constructing a regime that would exercise stabilizing effects on such accelerating expansion, or at least guaranteed rapid government intervention as soon as financial crises erupted. The Basel agreement on capital requirements was important here: as financial innovations had made a mockery of traditional ways of controlling the creation and extension of credit – notably the manipulation of reserve requirements by central banks – the US (in cooperation with the UK) promoted the attempt to create new international capital standards that would serve to formalize and codify risk. In addition to benefiting the US in a quite direct way (US Treasury bills were classified as the most liquid assets), this regime had the simultaneous effect of promoting financial expansion by appearing to put it on a more secure footing. Uncertainty was operationalized as risk and while this was now justified in prudential terms, it also opened up a wealth of opportunities for well-positioned American intermediaries.[54]

The construction of a new international regime of capital standards was accompanied by the creation of a set of more flexible institutional capacities. Key here was the ability to marshal massive amounts of stand-by funds in a short period of time to reassure the market. The Treasury and Federal Reserve repeatedly acted to bail out financial intermediaries in trouble and this created expectations for the way in which monetary authorities would deal with the imminent failure of such intermediaries in the future. Thus, what was at least as important as the build-up of a set of material capacities was the institutionalization of a pattern of expectations that the US state would take responsibility for the difficulties of private financial actors. As we have said, it also did much to exacerbate the problem of moral hazard, which in turn reinforced the pursuit of financial innovation and risk and kept re-regulation on the political agenda.

The bursting of the dot-com bubble in 2001 brought an end to a decade or more of relatively smooth domestic financial expansion in the US. It meant a return to full-blown financial scandals. During the late 1990s the upper echelons of companies like Enron had become engaged in highly creative accounting practices to sustain the upward trajectory of their stock prices. With the bursting of the bubble, it took little time for this to be exposed: a relatively small group of upper-level executives had collaborated with supposedly independent auditor firms and analysts to engage in fraudulent bookkeeping and sustain deceptive stock prices of which they themselves were the prime beneficiaries. The public outcry was enormous and in the best tradition of American populism: the collusive practices of a tight-knit circle of financial elites were widely seen not as an outcome inherent in the logic of an empire built on capital but precisely as negating and undermining the virtues of hard work and free enterprise. The executives involved received treatments that probably had never featured in J. P. Morgan's worst nightmares. Publicly named and shamed by powerful erstwhile

[54] Seabrooke (2001).

friends, they were unceremoniously prosecuted as criminals and some received lengthy prison sentences.

In July 2002 Congress adopted the Sarbanes–Oxley bill. Its central objective was to make corporate governance practices more accountable and transparent to investors and so to secure the American public's faith in financial markets. It established a Public Company Accounting Oversight Board and put serious penalties on corporate fraud and conflicts of interest. White-collar crime was no longer considered an innocent, victimless crime – so was the central message. These measures seem to have been fairly effective, at least in the sense that, after the fall-out of the dot-com crash had worked its way through, the American financial system has not been rocked by scandals on the scale of Enron or WorldCom. It improved the quality of corporate reporting to investors, while only scratching the surface of the bountiful benefits that American financial elites can reap from their connections and privileged access to information. To be sure, American corporate and financial elites have frequently complained that Sarbanes–Oxley imposes unreasonable costs and restrictions and greatly hampers the dynamism and competitiveness of American business. While it is always advisable to understand the statements of the business community in terms of their political efficacy rather than their truth-content, such sentiments reflected real concerns that Sarbanes–Oxley might have stifled some of American finance's traditional strengths, not least by somewhat impeding Wall Street's business relative to other financial centres.[55] But despite its drawbacks, Sarbanes–Oxley did what it was supposed to do. By addressing a concrete problem, it created legitimacy for the economic and financial practices that had given rise to those problems in the first place.

The restoration of legitimacy in this classically American way – involving small popular gains produced through an elaborate public spectacle – reinvigorated the capacity of America's key financial state institutions, allowing them to continue deepening and extending the reach of US financial markets. Inevitably, such developments gave rise to new bouts of instability and crisis. Whether the US state will continue to develop the institutional capacities needed to deal with these situations will depend on the degree of legitimacy American finance will re-establish. And this is probably one of the most noteworthy features of the current crisis: even though the crisis is intimately bound up with the financial plight of America's subordinate classes, the threat of mass foreclosures on mortgages is dealt with as a technical problem of financial management; its purely financial implications have been much more prominent than its social aspects. In other

[55] This was noticeable especially in the decline of the number of Initial Public Offerings at the New York Stock Exchange and a slowdown in the mergers and acquisitions business. London in particular was well positioned to profit from the slowdown of business in New York, and recent years have seen several campaigns to adopt some of the City of London's 'principle-based' regulatory practices that involve less intrusion by public regulators. In earlier years, with the birth and expansion of the Eurodollar market, London's lenient regulatory climate had been a crucial factor in the externalization of American finance; recent years have seen attempts to selectively appropriate and internalize these regulatory principles on Wall Street.

words, legitimacy has translated into the considerable autonomy enjoyed by American financial authorities as they engaged in one intervention after another following the onset of the crisis.

It is worth emphasizing here that the processes traced in this essay involve neither the purposeful construction of hegemonic narratives nor their conscious endorsement by the American public: legitimacy is an attribute of mundane, everyday practices and it is constructed through patterns of interaction fraught with unintended consequences and unacknowledged interdependencies. The kinds of capacities displayed by American elites and policymakers, as well as the high degree of responsiveness by the American public to policies designed to improve the operation of existing financial structures, are deeply embedded in intricate networks of historically evolved financial relations that are marked by a great deal of complexity, opacity and ambiguity. Indeed, the ideological strength of American institutions and symbols derives not so much from their ability to make a positive case for the US financial system, but rather from their tendency precisely to obscure the systemic properties of that system, and to divert attention from the exploitative qualities of the network of connections between state and finance in both their class and imperial dimesions. It is such institutional misrepresentation that makes available to financial elites the capacities for the pragmatic, event-driven and often contradictory manipulation of the sentiments expressed by ‘public opinion’ both in the US and abroad. To change this would require a far more radical program, informed by a far more penetrating analysis of imperial finance, than has so far appeared on the political agenda.

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