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The construction of US financial power

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Abstract. Critical work in international political economy (IPE) has sought to theorise US financial power through the concept of structural power, intended as a means to go beyond state-centric conceptions of political power and to trace the state's interaction with socio-economic forces. But due to the tendency to ontologise the distinction between state and market, IPE has not been fully successful in articulating the linkages between structural power and state power. The article then examines literature in the field of cultural political economy (CPE), which emphasises the constitutive importance of the cultural norms and practices situated at the level of everyday life. The CPE literature fails to challenge established IPE accounts in some key respects, and the article relates this to its conception of political power. The article develops an institution-based perspective that is more suitable to theorising the linkages between structural power and state power, and then proceeds to develop an interpretation of the construction of American financial power over the course of the 20th century. It reinterprets some of the key moments in the history of US and global finance and re-examines notions of American financial decline.

1. Introduction

Crises tend to lay bare connections that we had collectively forgotten about, connections that, over time, had become overlaid with so many layers of ideologically charged representations that we no longer saw them. So it is with the current financial crisis. The credit crunch that beset global financial markets in the summer of 2007 occurred in the midst of a party of speculation and take-over activity and had its origins in an unexpected part of the financial system, the subprime mortgage sector, the market for mortgages for people with poor credit ratings. In a relatively brief period of time, the crisis spread to engulf the global financial system. Often seen as an unexciting backwater of global financial markets without much direct relevance for the world of high finance where investment firms and hedge funds determine the fate of entire countries, the subprime mortgage sector now came to be at the centre of everyone's attention. Suddenly observers who had spent most of their time worrying about the speculative excesses of hedge funds found themselves confused by how the difficulties of underprivileged Americans in keeping up with their mortgage payments could have thrown a wrench into the wheels of global financial expansion. Thus, what the crisis made clear was that the world of global high finance had all along been deeply connected to – and indeed dependent on – the mundane world of

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ordinary people's aspirations for some degree of economic independence, the most everyday manifestations of the American Dream.

This article is premised on the idea that financial power is constructed at all levels of social life and that its analysis cannot be confined to the traditional level of high finance. The language of 'states and markets', which still dominates the discipline of international political economy (IPE), does not allow us to fully conceptualise the social sources of financial power. In recent years, IPE's focus on the global system of high finance has been criticised by scholars working from a cultural political economy (CPE) perspective, who stress the constitutive role of lower-level, everyday financial relations and practices. While in principle CPE's contributions allow for a richer understanding of the social construction of state power and capacity than can be found in the IPE literature, this promise remains unfulfilled. This article explores the contributions and limitations of these literatures with a view to clarifying the relationships between high and low finance and the social sources of financial power. It puts forward a conceptualisation of the construction of financial power and uses this to develop an interpretation of the expansion of American finance, paying particular attention to aspects of everyday financial relations that are pertinent to the conceptualisation of American financial power yet have received relatively little systematic attention in the IPE literature. The conclusion offers some reflections on the implications of the analysis for our understanding of US financial power in the present conjuncture.

2. The construction of financial power

The understanding of the operation of American financial power to be found in the critical IPE literature was developed through a critique of more conventional IPE approaches, which viewed the globalisation of financial markets as entailing a decline in the international position of the US.[1] Critical IPE authors, seeing not only America's growing balance of payments deficits but also its consistent ability to attract capital to finance them, questioned mainstream claims concerning the extent to which financial globalisation undermined American power. To this end, they criticised mainstream IPE for its state-centrism, for instance, its tendency to reduce political power to the capacities of the official state and to give short shrift to the socio-economic sources and embeddedness of state power. The notion of 'structural power' is meant as a shift away from the conventional focus on the direct dimensions and empirically observable qualities of power relations: it expresses the idea that power also operates in a more indirect and diffuse way, for instance, through shaping preferences and influencing the structural conditions under which other actors make decisions. This theoretical framework is then used to propose an alternative interpretation of the relation between financial globalisation and the US state: the re-emergence of global finance, while responsible for the demise of the US-dominated 'embedded liberal' Bretton Woods institutions, also laid the basis for a more market-based and structural form of US power.[2]

[1] For example R. Gilpin, *The political economy of international relations* (Princeton, NJ: Princeton University Press, 1987).

[2] S. Strange, *Casino capitalism* (Manchester/New York: Manchester University Press, 1986); S. Strange, *States and markets* (London: Pinter, 1988); S. R. Gill and D. Law, 'Global hegemony and

For all the valuable contributions this literature has made, it has never fully succeeded in articulating state power and structural power. Even though structural power was introduced as a tool to de-naturalise the conception of state power current in mainstream IPE and to trace its interaction with socio-economic forces, the concepts still sit alongside one another in a somewhat uncomfortable fashion. That is perhaps most evident in the analysis offered by Marxist authors such as Gill and Law who understood structural power primarily as the power of capital and thereby gave the notion a somewhat structuralist bent.[3] But the problem persists in other contributions which work within a more constructivist perspective: while these have focused more on the institutional framework of financial markets and the actors involved, they have been unable to overcome the tendency to ontologise the distinction between state and market.[4]

The concept of structural power, while an attempt to broaden notions of political power to take into account its socio-economic dimensions, has thus remained close to traditional notions of the market, capital and the 'system' of international finance. The conceptualisation of structural power has been confined within the categories of market and state and remained at a rather formal institutional level; it has rarely actually penetrated into 'the social' and its more informal, lower-level institutions, norms and practices. In other words, the acknowledgement of the salience of the structural dimensions of political power has not motivated an opening up of the categories of market and state in a way that would involve a fuller appreciation of their constructedness and relatedness and for a construal of the multi-layered networks through which they are connected.

One of the consequences of this continued reliance on an external conception of the relation between structural power and state power is that the critical IPE literature has tended to develop its own thesis of American decline, which follows a very similar logic to the mainstream one. While it is claimed that the market has functioned as a vehicle for American international power, the organic linkages between the power relations embedded in financial markets and US state power remain unclear. With such a conceptual cleavage between structural power and state power, globalisation still appears as a process whereby financial flows disembed themselves from their institutional context and undermine the authority and capacities of states. Thus, it is often argued that while financial globalisation has created extraordinary opportunities for the US, those opportunities are no longer properly embedded in and supported by the basic structures of global finance; eventually the American state will have to bow before the power of globalising financial markets.[5] It is the argument of this essay that this 'revised' decline thesis is

the structural power of capital', *International Studies Quarterly*, 33:4 (1989); A. Walter, *World power and world money. The role of hegemony and international monetary order* (New York: Harvester Wheatsheaf, 1993); E. Helleiner, *States and the reemergence of global finance. From Bretton Woods to the 1990s* (Ithaca, NY: Cornell University Press, 1994); G. Arrighi, *The long twentieth century: money, power, and the origins of our times* (London/New York: Verso, 1994); R. D. Germain, *The international organisation of credit. States and global finance in the world-economy* (Cambridge: Cambridge University Press, 1997); L. Seabrooke, *US power in international finance. The victory of dividends* (New York: Palgrave, 2001).

3 Gill and Law, 'Global hegemony and the structural power of capital'.

4 M. de Goede, 'Beyond economism in international political economy', *Review of International Studies*, 29:1 (2003).

5 Strange, *Casino capitalism*; *Strange States and markets*; Germain, *The international organisation of credit*; R. Brenner, *The boom and the bubble. The US in the world economy* (London: Verso,

based on a perspective that fails to fully conceptualise the linkages of US state power to organically rooted social practices and relations.

To be sure, some contributions have delved considerably deeper into the social realm than others. Harmes and Seabrooke have written about how financial globalisation has been associated with the growing participation of ordinary people in financial markets.[6] Indeed, the rise of mass investment is seen as playing a crucial role in the propagation of neoliberal norms and policies and the operation of structural power relations. However, what is remarkable about these contributions is that bringing in the social realm seems to have generated little new insight into the processes through which financial power is constructed. By and large, the role of ordinary people fits easily into the categories of market and state, fuelling a financial regime whose essential characteristics have already been determined. Their role is limited primarily to participation and legitimation after the fact and does not extend to the constitution of financial institutions. Moreover, the public's participation in financial markets is very much seen as a recent, that is post-Bretton Woods and neoliberal phenomenon, and this ignores its important role in the very shaping of the structures of American and global finance that stood at the basis of neoliberal globalisation.

In recent years, scholars working from a 'cultural political economy' (CPE) perspective have criticised the IPE tendency to attribute too many system-like qualities and autonomous coherence to the world of global finance and to give short shrift to the lower levels of financial life, that is to what Langley has termed 'the everyday life of global finance'.[7] Taking constructivist intuitions to their ultimate conclusion, CPE conceptualises financial reality and the institutions and processes that govern it as produced through discourses, cultural norms and interpretive frameworks situated at the level of everyday life. But this relativisation of the coherence of large macro-structures does not imply a straightforward shift of emphasis towards agency. Subjects and actors, no less than structures and institutions, are discursive constructions, effects of culturally located epistemic practices. Power, it is argued, does not just operate by setting the parameters and constraints for other people's agency, but is bound up with the very constitution of their interests, identities and desires; it is productive and constitutive. Owing to its capillary operation at the most everyday and decentralised micro-level, power has a web-like

2002); G. Arrighi, 'The social and political economy of global turbulence', *New Left Review*, II/20 (2003).

6 A. Harmes, 'Institutional investors and the reproduction of neoliberalism', *Review of International Political Economy*, 5:1 (1998); Seabrooke, *US power in international finance*; L. Seabrooke, *The social sources of financial power. Domestic legitimacy and international financial orders* (Ithaca, NY and London: Cornell University Press 2006).

7 P. Langley, 'The everyday life of global finance', *IPEG Paper in Global Political Economy*, no. 5 (2003). See also P. Langley, 'Investing for retirement: the structural power of finance and Anglo-American occupational pensions', paper presented to the International Studies Convention, Montreal (2004); P. Langley, 'Securitising suburbia: the transformation of Anglo-American mortgage finance', *Competition & Change*, 10:3 (2006); M. de Goede, *Virtue, fortune and faith: a genealogy of finance* (Minneapolis, MN: University of Minnesota Press, 2005); R. Aitken, 'The democratic method of obtaining capital – culture, governmentality and ethics of mass investment', *Consumption, Markets and Culture*, 6:4 (2003); R. Aitken, ' "A direct personal stake": cultural economy, mass investment and the New York Stock Exchange', *Review of International Political Economy*, 12:2 (2005); R. Aitken, *Performing capital. Toward a cultural economy of popular and global finance* (New York: Palgrave, 2007); R. Martin *The financialisation of everyday life* (Philadelphia, PA: Temple University Press, 2002).

quality. Hence, while CPE tries to 'deconstruct' the institutions and structures of global finance, it pays more rather than less attention to the structural dimensions of power than IPE does. At the same time, however, cultural norms and discursive conventions should not be seen as the new master structures: they are themselves produced through iterative acts of naming, that is, 'performative' practices.

While this literature provides us with a valuable perspective on the lower-level, more informal institutions and actors that are missing in the IPE structural power literature, it is characterised by a number of problems of its own, problems that prevent a straightforward cross-fertilisation of insights drawn from IPE and CPE to illuminate the problematic of this paper. First of all, it is worth considering if CPE overstates the explanatory capacity of cultural and epistemic practices. By according so much constitutive power to discursive networks and emphasising their operation at the most minute, capillary level, CPE ends up exaggerating the degree to which agents internalise and are constituted through discursive and cultural norms. Of course, discourses are seen not as determining structures but rather as requiring continuous reproduction through performative practices. But the question is if the relation between cultural discourses and practices is not characterised by more complexity and more layers than can be captured through the notion of performativity and the high degree of correspondence between discourses and practices that it suggests.

Let me give three examples to illustrate this abstract point. First, in order to explain the American public's high degree of involvement in financial markets, Aitken refers to the American cultural tradition that extols individual ownership.[8] However, while it is true that the history of the US is characterised by a unique discourse of ownership and republican independence, such an approach fails to capture the changing ways in which people related to this discourse. Whereas during the 19th century it was at the basis of a very strained relationship between the American lower classes and the financial system, during the 20th century the very same cultural values drove the integration of the American population into the financial system. Second, even within the 20th century the patterns of participation by ordinary people in financial markets are too complex to be explained through cultural disposition. The cultural salience of the American dream was responsible for a steady expansion of consumer and mortgage credit from early on in the 20th century, but until well into the post-WWII period the public's participation in its role as investors was much more uncertain, episodic and less organically embedded in the mechanisms of everyday finance. The birth of a real investment culture in the US needs to be understood as the result of specific institutional configurations. Third, the idea that finance is 'performed' on an everyday level attributes too much coherence to financial practices and does not allow for the idea that ordinary people engage financial structures with a very different level of awareness and a different set of strategic capacities than the actors populating the world of high finance do. Especially in the neoliberal era, the popular engagement with finance has not been without its contradictions: the mingling of finance and everyday life has been marked by widespread misunderstanding, miscalculation and undelivered promises.[9]

[8] Aitken 'A direct personal stake', p. 341.

[9] A. Aldridge, '*Habitus* and cultural of capital in the field of personal finance', *Sociological Review*, 46:1 (1998); I. Erturk, J. Froud, S. Johal, A. Leaver and K. Williams 'The democratisation of

What I am trying to draw attention to with these examples is that the salience of cultural values and norms is mediated by mechanisms whose complexity and multiplicity are not best captured through the notion of performativity. In the CPE literature, the cultural-discursive level tends to become a self-contained level of financial life that is hard to articulate with other levels. While we are no longer faced with a system of high finance that governs our world from far above, we now have a financial market that operates through the active performance and internalisation of cultural norms. The consequence of this is that CPE is not as successful in uncovering the political aspects of financial life as it aims to be. In a paradoxical sort of way, politics and power disappear from the picture.

This is the case in two senses. First, with the political almost completely absorbed by the cultural discourses situated at the level of everyday life and with people willingly performing and reproducing discourses, the formal institutional aspects of political authority disappear from view. Whereas the IPE literature fails to properly articulate the structural dimensions of power relations and state power, the CPE literature more or less abandons the question of state power altogether. Second, the emphasis on the constitutive role of discourses and power networks as the conditions of possibility for any kind of agency or structuration has the unfortunate effect of diverting attention away from the fact that power networks are deeply asymmetrical and that some actors exercise more power than others. Poststructuralists try to move away from a perspective that sees power as objective ('x has power and y does not') or even relational ('x has power over y') and they do so for very good reasons, for it is the lingering effects of more mainstream conceptions of power that prevent IPE from conceptualising the structural dimensions of power without ontologising structures. Yet it is not clear that the best response is to shift towards a conception of power that is no longer able to account for such phenomena as the unequal distribution of resources and relations of control, which, after all, are the ways in which power is experienced.

While CPE's critique of IPE centres on the claim that the latter ignores the constitutive importance of cultural discourses and practices for what it studies (for instance, global finance), it often seems as if IPE and CPE merely have different objects of study. CPE's accounts of the everyday life of finance complement and add to but do little to modify our understanding of how financial power works at the macro-level. This is apparent in CPE's tendency to go along with IPE's conceptualisation of financial globalisation and expansion in terms of the tendential disembedding of financial markets from their erstwhile 'embedded liberal' institutional context. The emergence of neoliberalism is also understood on the model provided by IPE, that is, in terms of the growing salience of market processes and private governance. It is the argument of this paper that a proper appreciation of the lower levels of financial life allows for a critical re-examination of the sources of American state power, the driving forces behind financial expansion and globalisation, as well as the turn to neoliberalism. It also allows for a critical re-examination of the 'revised decline thesis'.

The foregoing discussion should alert us to some of the difficulties involved in conceptualising social construction as a historical process: both CPE and IPE tend to

finance? Promises, outcomes and conditions', *Review of International Political Economy*, 14:4 (2007).

hypostatise structures as substantial entities, and the degree of solidity and coherence attributed to these particular structures sits uncomfortably with the theme of social/discursive construction. The account presented in this paper is couched in terms of institutions and the strategies that actors devise within those institutional frameworks. To a certain extent, this takes us back in the direction of a more constructivist approach, which typically attributes some independent properties and causal powers to socially constructed entities. Yet it should not be taken to imply a return to either the assumption of an ontologically coherent actor with a pre-discursive identity or to a notion of institutions as enjoying material powers in and of themselves. Rather, it is intended as an argument for emphasising the pragmatic and instrumental – over the performative, iterative and ritualistic – aspects of the constitution of actors and identities:[10] subjects use discursive structures to render their relationship to the world more coherent and to improve their conceptual and practical grip on it.[11] The salience of institutions does not depend on their capillary operation: they inform but do not exhaust subjectivity. Such an approach might draw on Bourdieu's notion of habitus, which foregrounds the practical shaping of the framework of norms and conventions that structure everyday life.[12]

Crucial to such a perspective is the realisation that the habitus of social life consists not merely of representations, and that we should not, in idealistic fashion, attribute too much efficacy to rules and norms as they are publicly represented.[13] Thus, the salience of institutions and discourses is not necessarily premised on their one-to-one correspondence to social practices and actors' identities. Actors relate to institutions in a way that is strategic rather than performative: they manoeuvre around institutions, the public meanings and socially constructed abstractions available to them. We can understand the constitutive role of institutions in this perspective by emphasising their normative nature. Like performativity, normativity expresses the idea that human institutions are constitutive in a sense that we cannot hope to grasp as long as we try to conceptualise them as neutral, purely descriptive representations of objective facts. The codification of social rules in institutions is not merely an act of description; it creates what it purports to describe and name, it constructs what it claims to merely represent.[14] Institutions, then, are stylised, formal and partial representations of social practices and relations.

Indeed, that is precisely *how* institutions are involved in the constitution of power relations: institutions help to constitute social relations by providing idealised clues about social life that both inform us *and* partly mislead us as to the nature of those relations. The process whereby subjects draw on institutions to make sense of the world, meanwhile constructing their identities and interests, always involves an element of misrepresentation and misrecognition that diverts their attention away

[10] B. Lee, *Talking heads: language, metalanguage, and the semiotics of subjectivity* (Durham, NC: Duke University Press (1997); A. Moorjani, *Beyond fetishism and other excursions in psychopragmatics* (New York: St. Martin's Press, 2000).

[11] R. Widick, 'Flesh and the free market: (On taking Bourdieu to the options exchange)', *Theory & Society*, 32:5–6 (2003).

[12] P. Bourdieu, *Outline of a theory of practice* (Cambridge: Cambridge University Press, 1977). See also J. M. Ryner, 'International political economy: beyond the poststructuralist/historical materialist dichotomy' in M. de Goede (ed.), *International political economy and poststructural politics* (New York: Palgrave, 2006).

[13] C. Taylor, 'To follow a rule . . .', in R. Shusterman (ed.), *Bourdieu. A critical reader* (Oxford and Malden, MA: Blackwell, 1999).

[14] J. Searle, *The construction of social reality* (New York: Free Press, 1995).

from patterns of social control and so serves to normalise, legitimise and stabilise social life.[15] Institutions are implicated in the construction of social reality in a way that is not immediately evident from their professed purpose or official identity and as such they play a crucial role in the legitimation of prevailing relations of power. In that sense institutions are always ideological in nature. Agency is historical and social, embedded not only in institutional structures of meaning and discourse but also in the relations of interdependence that are formed through but not reflected in those abstract forms.[16]

An appreciation of the constitutive importance of the discrepancy between practices and institutions allows us to recognise that, as we try to grasp institutions as human constructions rather than material forces, it is useful to shift away from questions posed in terms of the relation between institutional structure and agency and to reframe them in terms of the institutionally mediated relations between agents. After all, the question of how agents relate to institutional structures only arises because most of the time agents do not relate to each other in a direct and unmediated way;[17] that is, agents only relate to institutional structures in the process of relating to other agents.[18] Institutions reflect the ability of some agents to organise their interaction with others on the basis of particular norms and conventions, thereby enhancing their control over the dynamics of those relations. When a particular kind of relationship gets institutionalised, it becomes the normative principle on the basis of which people devise their strategies, assess their place in social life and construct their desires and identity.

Thus, institutionalisation facilitates the operation of power on a more systematic basis than would ever be possible if power were only ever exercised directly, through the imposition of one agent's will on another. Institutions, in other words, leverage agency. From a personal and direct relationship, power is transformed into a structural, indirect relationship.[19] We tend to be aware of power only when it is exercised on us more or less directly; power relations constructed through and mediated by institutions are more opaque as their nature or existence is rarely advertised by those institutions themselves. The idea that the stabilisation and legitimation of social norms serves to obscure the operation of social power is at the core of Žižek's psychoanalytical critique of poststructuralism's understanding of subject formation:[20] the formation and reproduction of positive actors and identities, that is, actors who rely on established institutions and norms to rationalise and render coherent their experience of the world, does not so much express the coherent efficacy of discursive practices but rather precisely conceals the contradictions and tensions in the way people experience the world.[21] They precisely serve to effect what

15 T. Eagleton, *Ideology: An introduction* (London: Verso, 1991).
16 M. Konings, 'Political Institutions and Economic Imperatives: Bringing Agency Back In', *Research in Political Economy*, 22 (2005).
17 K. Knorr Cetina and U. Bruegger, 'Global microstructures: the virtual societies of financial markets', *American Journal of Sociology*, 107:4 (2002).
18 S. Knafo, 'Critical approaches and the problem of social construction: reassessing the legacy of the agent/structure debate in IR', *Review of International Studies*, forthcoming.
19 W. Roy, *Socialising capital: the rise of the large industrial corporation in America* (Princeton, NJ: Princeton University Press, 1997), pp. 13–14.
20 S. Žižek, *The sublime object of ideology* (London/New York: Verso, 1989).
21 This theme can also be found in other psychoanalytically inspired critiques of political power: Fromm, for instance, emphasises that the authority of discourses and institutions is based on their

Bloch called a 'premature harmonization' of the lived contradictions generated by existing social relations.[22]

Legitimation derives from a routinisation of misrecognition and so implies a layering of misleading representations such that identities and positions take on an ever more natural character and their associated power relations become increasingly hard to spot. As critical faculties become blunted, the leverage and inequality that characterise our social relations become more stable. Thus, institutionalisation is productively implicated in the asymmetrical formation of actor capacity. The problem of subordination consists in the fact that the capacity for exercising powers of agency is unequally distributed over different positions and identities.[23] Bringing the everyday back through the deconstruction of our most abstract categories is therefore often less about making visible the efficacy of everyday agency and resistance than about showing how the habitus of accepting and rationalising particular institutions results in the creation of networks of connections of which the participating actors are unaware and serves to bolster the capacity of dominant actors to control the dynamics of social life. This is not to reduce subordinate subjects to passive victims of history: subjects alienate themselves through the strategic exercise of their (mis)perceived options and the active participation in misrecognised social institutions. It is merely to acknowledge that the problem of power consists in the fact that the agency of some is enhanced at the expense of that of others.[24]

These points are of particular importance to the history of American finance. Whereas during the 19th century monetary and financial institutions were deeply contested, the institutional parameters of American finance that had emerged by the early 20th century were at the basis of the progressive integration of the American public into that system. This is by no means to suggest that Americans have lost interest in financial matters or that they have become fully depoliticised; indeed, suspicion and scandal have been recurrent features of the American financial scene throughout the 20th century.[25] Rather, the point made here is that the American state and financial elites have developed an extraordinary ability to refract popular discontent and misgivings and redirect them in such a way as to promote hegemonic integration and legitimacy. De Cecco and Moran have presented detailed empirical arguments along these lines:[26] they emphasise the salience of the role of America's lower classes in the making of American finance, but at the same time demonstrate that financial elites have proved very adept not only at responding to pressures from below but also at using them in such a way as to create new institutional frameworks that have laid the foundations for further financial expansion.

ability to divert people's attention away from their lived contradictions. E. Fromm, *Escape from freedom* (New York: Holt, Rinehart and Winston, 1941).

22 E. Bloch, *The principle of hope* (Cambridge, MA: MIT Press, 1986); cited in L. Panitch and S. Gindin, 'Transcending pessimism: rekindling socialist imagination', in L. Panitch and C. Leys (eds), *Socialist Register 2000* (London: Merlin Press, 2000), p. 4.

23 P. Bourdieu (with T. Eagleton), 'Doxa and common life', *New Left Review*, I/191 (1992).

24 V. Heftler, 'The future of the subaltern past: Toward a cosmopolitan "history from below" ', *Left History*, 5:1 (1997).

25 S. Fraser, *Wall Street: A cultural history* (New York: Faber & Faber, 2005).

26 M. De Cecco, *Modes of financial development: American banking dynamics and world financial dynamics*, European University Institute Working Paper, No.84/122 (1984); M. Moran, *The politics of the financial services revolution. The USA, UK and Japan* (London: MacMillan, 1991).

Hegemonic socialisation thus implies a build-up of ideologically charged, institutionally embedded representations that is crucial in the constitution of agency. Its salience finds expression in the fact that we can often meaningfully talk about organisational and corporate actors in a way that does not amount to reification or ontologisation. If we are to address questions of international politics, we cannot avoid talking about 'the state' in a way that suggests it has agency and identity. The latter are socially constructed, to be sure, but so is everything else. Key here is to remind ourselves that what is a coherent actor or institution at one level will appear as a deeply ideological category whose internal constitution needs to be analysed when we shift towards a different level of analysis. This is essentially Giddens' proposal for an analytical strategy of 'bracketing':[27] phenomena whose social construction we should examine at one level of analysis can be temporarily taken for granted at another level.[28]

What this amounts to is a picture of society as a pyramidal network of social constructions, where interaction channelled through the abstractions and ideologies of everyday life results in the creation of complex networks of structural power through which higher-level institutions are legitimated.[29] The leveraging of the agency of some over that of others thus expresses itself as a process whereby institutions acquire a certain degree of coherence and identity. The formal state, rather than being a substantive entity in and of itself with merely external connections to the social realm, sits at the pinnacle of these cross-cutting networks of power.[30] Statehood, as the public sanctioning of relations of control, can be found at all levels of social life. In Gramscian terms, we need a conception of the 'integral state', for instance, an understanding of the constitution of power relations that does not confine its view to the institutions of the formal state but examines its internal connections to social processes situated at different levels.[31]

This means on the one hand that, the state, far from being overwhelmed by the proliferation of social networks of structural power, is critically dependent on these. State capacity can be highest when it is organically connected to an infrastructure of

[27] A. Giddens, *Central problems in social theory: Action, structure and contradition in social analysis* (London: MacMillan, 1979); A. Giddens, *The constitution of society. Outline of the theory of structuration* (Cambridge: Cambridge University Press, 1984).

[28] To be sure, it is important to be aware of the uses and abuses of 'bracketing'. All too often, it is used as an excuse to continue doing social science the same way as before we discovered that social reality is constructed and that representations are not mere passive reflections of the world. Examples include Wendt's (see his *Social theory of international politics* (Cambridge: Cambridge University Press, 1999) and 'The state as person in international theory', *Review of International Studies*, 30:2 (2004)) combination of constructivism with state-centrism and the tendency in some strands of IPE to label themselves constructivist on the basis of their choice of object of study rather than the methodological perspective adopted, that is, to study themes such as identity, ideas and legitimacy while continuing to adhere to a positivist methodological framework (for example R. Abdelal, Y. M. Herrera, A. I. Johnston and R. McDermott 'Identity as a Variable', *Perspectives on Politics*, 4:4 (2006) and Seabrooke, *The social sources of financial power*). The criterion for evaluating if 'bracketing' is applied correctly, it seems to me, is whether, having traced the process of social construction, we are able to return to the level of institutions with a new and improved awareness of their role and function in the operation of power relations. That is, it should be part of a conceptual effort to question common sense, the everyday sentiments that take for granted society's official account of itself as this is represented in its institutions.

[29] P. Abrams, 'Notes on the difficulty of studying the state', *Journal of Historical Sociology*, 1:1 (1977).

[30] P. Bratsis, *Everyday life and the state* (Boulder, CO: Paradigm, 2006).

[31] A. Gramsci, *Selections from the prison notebooks* (London: Lawrence and Wishart, 1971).

lower-level institutions and norms.[32] On the other hand, the complex networks of rules and norms that underlie such legitimacy are often sources of complications for state policies. State personnel do not enjoy a view of society as it really is, shorn of its mystifying aspects; like all other levels of the political, the formal state is constitutionally implicated in the 'premature harmonization' of society's core contradictions. And precisely because the state derives its power from ideological obfuscations at every level of institutionalisation, its view too is clouded, and its policies hampered, by these. Thus, while the modern, capitalist state derives a great deal of capacity from its ideological qualities, it is also confronted with a degree of complexity that was absent in past, often simpler political systems. The emergence of new social dynamics marked by a higher degree of institutional connectivity often complicate the state's ability to translate its formal authority into substantive control. Thus, the creation of networks of structural power relations lays the foundations for but does not automatically translate into a higher degree of state capacity. The growth of the integral state is a contradiction-ridden process.

3. The construction of American financial power

In the following, I will employ the understanding of the construction of financial power outlined in section 2 to give an account of the contradiction-ridden social construction of the American integral state and its infrastructural capacities in the financial sphere. The focus here is on the dynamics generated by the progressive integration of the American population into the financial system that began in the early 20th century and was provided with a new regulatory framework during the New Deal.

During the 19th century, the financial system of the US had been fragmented and characterised by the absence of comprehensive institutional linkages. Financial elites sought to create a coherent and integrated national financial system on the English model, but such attempts came to naught due to the strength of the agrarian classes and their commitment to the republican ideal of the independent farmer.[33] The consequent lack of liquidity greatly hampered the development of banking in antebellum US.[34] After the Civil War, banks began to develop new methods for acquiring liquid assets: instead of restricting their credit extension practices to well-secured, non-speculative mercantile credit (as prescribed by classical commercial banking doctrines) they turned to 'financial banking',[35] investing in stock and call loans and so deepening the connections between speculative financial markets and the banking system.[36] Moreover, because American banks now enjoyed ample access to liquidity, they were also in a position to freely and flexibly extend credit across the

[32] J. M. Hobson, *The state and international relations* (Cambridge: Cambridge University Press, 2000); M. Mann, *The sources of social power vol. 2. The rise of classes and nation-states, 1760–1914* (Cambridge: Cambridge University Press, 1993).

[33] De Cecco, *Modes of financial development*; J. V. Fenstermaker, *The development of American commercial banking: 1782–1837* (Kent, OH: Bureau of Economic and Business Research, 1965).

[34] B. Hammond, *Banks and politics in America. From the Revolution to the Civil War* (Princeton, NJ: Princeton University Press, 1957).

[35] A. Youngman, 'The growth of financial banking', *Journal of Political Economy*, 14:7 (1906).

[36] M. G. Myers, *The New York money market* (New York: Columbia University Press, 1931).

board, including unsecured and illiquid personal credit. This capacity laid the basis for the extension of relations of credit and debt into the lives of ordinary Americans. Having started out from very unpromising beginnings, by the early 20th century, the US had a dynamic and expansionary financial system characterised by a high degree of structural power and institutional connectivity.

The rest of this section will trace the trajectory of this expansion and its institutional governance. Section 3.1 will briefly discuss how the extension of financial relations into the realm of the everyday during the early 20th century – an emphasis that contrasts with traditional IPE interpretations of the period as the classic age of high finance – fueled economic instability and contributed to the economic breakdown. New Deal reforms, discussed in section 3.2, sought to put the mingling of finance and the everyday on a more prudent footing: they fragmented the financial system and improved public oversight with a view to restoring the public's faith in the system. But it was precisely the progressive integration of the American public into the financial system that would do much to complicate the regulatory vision announced with the New Deal and undermine the Fed's control. The dynamics generated by this tension would be a central, but hitherto largely unacknowledged, driving force behind the post-WWII transformation of American and global finance.

Section 3.3 describes how during the early post-WWII period, at a level below that of the 'embedded liberal' structures of global high finance which have traditionally been the focus of IPE scholarship, US finance underwent a process of dramatic expansion. Section 3.4 shows how, when banks' ability to take advantage of the high demand for credit ran up against the limits of their funds, they engaged in financial innovation in order to find ways around the constraints imposed by New Deal legislation and so to access new sources of funds. The resulting dynamic of financial innovation was a key driving force behind the re-emergence of global finance and the formation of structural power relations. When during the 1960s the Fed began to actively resist these strategies, banks responded by going abroad and applying their new financial techniques abroad, in the process reshaping the institutional basis of international finance.

Section 3.5 explores the contradiction at the heart of US power that this gave rise to. On the one hand, the extension of financial institutions and practices of distinctively American provenance into the international realm served to loosen the external constraints on the American state. On the other hand, the ability of banks to import reserve funds from abroad undermined the Fed's control over the creation of money and credit, resulting in inflation and instability that tended to jeopardise the basis for further financial expansion and ultimately also the US's international position. Section 3.6 proposes an interpretation of America's turn to neoliberalism and monetarism that contrasts with the one current in IPE, which views it in terms of the state's subordination to the imperatives of global financial markets and the acceptance of external discipline and limits on domestic policy autonomy. This paper argues that the turn to neoliberalism and monetarism is more fruitfully understood as an adjustment of the institutional linkages between high finance, everyday finance and the US state which laid the basis for a higher degree of institutional control over processes of undiminished credit creation and continued expansion. In this way, it resolved the contradiction that had marked the expansion of structural power relations during the 1970s and gave a huge boost to US state capacity. Indeed, the continued integration of the American population into hegemonic financial institutions has given the financial system a great deal of density and connectivity that has made it highly sensitive to the manipulation of basic institutional parameters. In this sense, neoliberalism and monetarism realised the vision of infrastructural capacity and integral statehood first announced with the New Deal.

3.1 Contradictions of structural power: financial expansion and instability during the early 20th century

As the US entered the 20th century, it was characterised by a highly expansionary, but also highly volatile, pattern of financial intermediation. The foundation of the Federal Reserve System in 1913 was an attempt to stabilise the dynamics of this system. However, it was not a modern, activist central bank charged with tasks of macroeconomic stabilisation but rather a reserve association oriented to passively accommodating banks' demand for credit in the money market.[37] Moreover, it did nothing to undermine the network of financial techniques and credit relations that stood at the basis of the high degree of financial interconnectedness.[38] The constraints on the Fed's regulatory capacity allowed highly expansionary financial dynamics to proceed apace. Indeed, the presence of an accommodating lender-of-last-resort meant that banks could pursue strategies hitherto deemed imprudent with even more vigour.

Banks' ever deeper connections to the highly dynamic stock market allowed them to function as investment firms for middle-class Americans.[39] The interwar period thus saw the rise of a stratum of ordinary investors, due to the efforts of commercial banks that were increasingly functioning as investment trusts. However, the public's participation in the financial system grew not only in its role as investor, but also in its capacity as borrower. After the defeat of populism's programme for a producers' republic at the end of the 19th century, popular concerns had shifted towards issues of consumption and distribution almost by default. Initially the focus on consumption represented a new take on (rather than a complete abandonment of) the ideology of republican independence:[40] it was thought that by loosening budgetary constraints consumer credit would allow workers to create a certain distance from the pernicious imperatives of the market and the discipline of wage labour.[41] And indeed, the

[37] L. V. Chandler, *American monetary policy 1928–1941* (New York: Harper & Row, 1971), pp. 10–11; D. C. Wheelock, *The strategy and consistency of Federal Reserve monetary policy, 1924–1933* (Cambridge: Cambridge University Press, 1991).

[38] H. van B. Cleveland and T. F. Huertas, *Citibank 1812–1970* (Cambridge, MA and London: Harvard University Press, 1985); M. Myers, 'The investment market after the Civil War', in H. F. Williamson (ed.), *The growth of the American economy* (Englewood Cliffs, NJ: Prentice-Hall, 1951), p. 582; P. L. Zweig, *Wriston. Walter Wriston, Citibank, and the rise and fall of American financial supremacy* (New York: Crown Publishers, Inc, 1995), pp. 36–7.

[39] De Cecco, *Modes of financial development.*.

[40] M. Jacobs, ' "Democracy's Third Estate": New Deal Politics and the Construction of a "Consuming Public" ', *International Labor and Working-Class History*, 55 (April 1999).

[41] This was particularly evident in the many regional movements based on some variation of the theme of 'social credit'. The most successful 'social credit' movement occurred outside the US, in Alberta, Canada.

idea of consumer credit initially drew heavy criticism from the nation's financial establishment, which saw it as promoting idleness and indolence.

But it soon became clear that the idea of a consumers' republic lent itself to depoliticisation and hegemonic integration in a way that 19th century ideologies of a producers' republic never had.[42] Moreover, financiers realised that the real world of consumer credit imposed many more obligations on the debtor than popular myth would have it. Instalment credit turned out to be a fairly good disciplinarian, locking workers into a schedule of repayments that increased rather than reduced their dependence on the labour market. The 1920s saw the rapid growth of consumer lending[43] and now the credit-creating capacities of the commercial banking system became available to ordinary Americans in their capacity as consumers and borrowers. Thus, the early 20th century – which in IPE is usually characterised as the classic era of high finance, dominated by financial diplomacy and the intimate links between prominent investment bankers and politicians – saw a major expansion of the significance of financial relations in Americans' everyday lives.

Over the course of the 1920s, the expansion of speculative and consumptive credit became increasingly cause for concern. However, the Fed's passive stance fuelled rather than dampened these tendencies: its main task was to keep the banking system liquid by functioning as a lender of last resort and this approach greatly limited its ability to regulate the dynamics of an expanding financial system. The dangers of financial expansion were only acknowledged when it was too late.[44]

3.2 The New Deal: a new framework for financial expansion

The New Deal, while very much a response to popular discontent, enjoyed considerable support among sections of the business community.[45] These technologically advanced firms formed the core of what would come to be known as Fordism;[46] viewing workers not only as production- and cost-factors but also as potential citizen-consumers, they were more favourably disposed towards the New Deal's integrative reforms.

[42] The help of civic-minded Progressive reformers was crucial here: they 'identified consumers as a new category of the American citizenry, an ideal broad-based constituency desirous and deserving of political and social reforms to limit the dangers of an industrialising, urbanising, and politically corruptible twentieth-century America' (L. Cohen, *A consumers' republic. The politics of mass consumption in postwar America* (New York: Alfred A. Knopf, 2003), p. 21).

[43] L. Calder, *Financing the American dream. A cultural history of consumer credit* (Princeton, NJ: Princeton University Press, 1999); M. L. Olney, *Buy now pay later. Advertising, credit, and consumer durables in the 1920s* (Chapel Hill, NC and London: University of North Carolina Press, 1991).

[44] To be sure, by the late 1920s the Fed shifted from the idea of passive, accommodating policies towards that of a more discretionary policy orientation, associated with the new and more active instrument of open market operations. However, this was still a long way from modern monetary policy: the Fed's interpretation of broader macroeconomic conditions was still fully filtered through the money market. Moreover, the effectiveness of this new policy orientation, as well as the general growth of the Fed's governing capacities, was hampered by divisions within the Federal Reserve System itself.

[45] T. Ferguson, 'From normalcy to New Deal: industrial structure, party competition, and American public policy in the Great Depression', *International Organization*, 38:1 (1984); R. W. Cox and D. Skidmore-Hess, *US politics and the global economy. Corporate power, conservative shift* (Boulder, CO and London: Lynne Rienner, 1999).

[46] M. Aglietta, *A theory of capitalist regulation* (London: NLB, 1979).

The New Deal reforms sought to restore public faith in the financial system by fragmenting and compartmentalising it, strengthening the role of traditionally subordinate sectors and improving the public oversight of each of the compartments and the system as a whole. A barrier was introduced between financial markets and Americans' deposits through the separation of commercial and investment banking, competition among depository institutions was curtailed through caps on interest payments (Regulation Q), and a federal system of securities markets regulation was created. Moreover, the New Deal established the thrift industry as a real alternative to the banking system through the extension of 'a range of direct and indirect subsidies, including deposit insurance, guaranteed deductible mortgages, public housing programmes, and urban renewal schemes'.[47] The social and fiscal legislation of the New Deal period also laid the foundations for the growth of another segment of the economic system: institutional investors such as insurance companies and pension funds.

Thus, increased popular faith and participation in the financial system was secured through its fragmentation and the fortification of traditionally subordinate sectors. This generated a dynamic that, as would become clear over time, was in tension with the maintenance of the New Deal framework itself. The compartments were hardly watertight and the increased participation of the American public in the financial system created a continuous source of opportunities and pressures for intermediaries to engage in forms of innovation designed to circumvent the New Deal regulations. In addition, thrifts and institutional investors became major vehicles for the further integration of the American population into the financial system, and the ensuing rivalry with the commercial banking system spurred competition and innovation.

This was especially problematic since the New Deal period was also characterised by the rise of a new conception of economic governance. The notion that aggregate demand cannot be taken for granted (as in Say's law, according to which supply creates its own demand) and that it constitutes a decisive factor in the health of an economic system presupposes a modern, 'macro' conception of the economy as more than the sum of individual acts of production and exchange, that is it presupposes an appreciation of capitalism's systemic properties. The New Deal was the first expression of the idea that a national economy could be regulated by adjusting some of its key institutional parameters. It was only during the New Deal that the Fed became a central bank in the modern sense of the word, responsible not only for keeping the banking system liquid but also for stabilising macro-economic indicators such as inflation and employment.[48]

But this new orientation would be complicated precisely by the dynamic of financial innovation generated by financial expansion within the restrictive confines of the New Deal framework. In other words, the same configuration of institutions that was responsible for the growth of the structural power of finance did a great deal to render precarious the American state's capacity to steer and regulate those financial relations. In this sense, the history of the Federal Reserve can be read as a continuous struggle to translate formal authority into effective control, that is as a

47 P. A. Johnson, *The government of money. Monetarism in Germany and the United States* (Ithaca, NY and London: Cornell University Press, 1998), p. 120.

48 W. Greider, *Secrets of the temple: how the Federal Reserve runs the country* (New York: Simon and Schuster, 1987), p. 313.

series of attempts to find the regulatory modalities appropriate to the distinctive dynamics of the American financial system and to create the kind of institutional linkages between formal financial authority and the framework governing the everyday dynamics of financial intermediation that would enhance the American state's infrastructural capacity. Although this vision of 'integral statehood' was first announced during the New Deal, it was only first approximated during the neoliberal era.

3.3 The financial integration of the American working class

As Aitken has observed,[49] the role of finance during the period of embedded liberalism and Fordism is often underestimated. The conceptualisation of Fordism as subordinating financial capital to productive capital prevents a conceptualisation of the ways in which throughout the post-New Deal and especially post-WWII period developments at the level of everyday finance were ushering in dynamics that would be of crucial importance to the re-emergence of global finance. Of course, high finance as conventionally understood was rather dormant. After the New Deal, the securities industry came to be organised on the basis of self-regulatory organisations, effectively allowing for the re-emergence of oligopolistic industry structure reminiscent of the Money Trust that would remain intact until the early 1970s.[50] But the segmentation of the financial system meant that investment bankers' control over the financial system at large had been reduced considerably.

However, at a more mundane level finance was undergoing a process of rapid change and growth.[51] Crucial here was the dramatic acceleration of the growth of consumer credit and mortgages. Whereas mass investment had come to an abrupt end with the Crash and Depression and resumed only gradually after WWII, the Depression years had positively strengthened the reputation of the consumer credit sector. The reason was that repaying instalment debt rose to the top of many people's list of priorities: with so much of their money locked in already, they went to considerable lengths to avoid defaulting on their loan.[52] The Depression years had thus affirmed not only the resiliency of consumer credit but also proven it to be an excellent disciplinarian of the working classes, giving them a stake in the system and locking them into a life devoted to repaying the debt they had incurred in acquiring that stake. In addition, over the course of the 1930s New Deal policymakers had created a number of so-called Government-Sponsored Enterprises, charged with the task of reducing borrowing costs in designated sectors. The most important of these was the Federal National Mortgage Association (Fannie Mae), created in 1938 and charged with the task of creating a secondary market for home mortgages. It bought

49 Aitken, 'A direct personal stake'.
50 V. P. Carosso, *Investment banking in America* (Cambridge, MA: Harvard University Press, 1970); C. R. Geisst, *The last partnerships. Inside the great Wall Street money dynasties* (New York: McGraw-Hill, 2001).
51 L. Panitch and S. Gindin, 'Finance and American empire', in L. Panitch and M. Konings (eds), *American Empire and the Political Economy of Global Finance* (New York: Palgrave, 2008), pp. 23–4.
52 Calder, *Financing the American dream.*

mortgages from banks and thrifts, pooled them and sold them on in securitised form, that is, as so-called mortgage-backed securities.[53]

With these foundations in place and against the background of rising workers' incomes, during the post-WWII years the growth of consumer credit and mortgages accelerated dramatically.[54] Over the five-year period between 1949 and 1954 total private debt increased nearly three times as fast as during the five years leading up to the Crash.[55] This integration of the working classes into American society's basic economic and financial mechanisms sets the New Deal institutions apart from the welfare states erected in Western Europe after WWII. Whereas the latter effected a significant degree of 'decommodification',[56] the New Deal institutions did not so much reduce as increase the working classes' full integration into and dependence on the market economy. In the US, the ideological strength of populist aspirations for republican independence, having taken on more consumerist qualities,[57] were at the roots of the ever fuller integration of the lower classes into a world of privatised consumption and the financial system that regulates it.[58]

This created a world of opportunities for American financial intermediaries. For commercial banks, cut off from opportunities in financial markets, capitalising on the opportunities created by the growing corporate and popular demand for credit was imperative. Banks offered credit cards, car loans and second mortgages, they reduced downpayments, all the while relaxing the terms of credit, lengthening the repayment period and requiring lower downpayments.[59] Until the mid-1950s, owing to their enlistment in the government's war funding effort and the Fed's continued commitment to supporting the market for government debt, banks were highly liquid and in an excellent position to respond to the growing post-WWII demand for credit generated by Fordist patterns of production and consumption. However, from the mid-1950s, banks' ability for making loans was running up against the limits of their supply of funds. The thrift industry managed to lure significant amounts of savings away from the commercial banking system.[60] Moreover, as the Fed abandoned its support of the market in government securities, market interest rates started to rise.[61] This meant that large depositors began to shift their funds from banks to short-term financial instruments such as commercial paper. This affected banks' ability to make loans, and corporations and consumers responded by turning to other, non-bank sources of finance. Reversing this vicious cycle of 'disintermediation' by accessing funds was of vital importance to the banks.[62]

[53] L. P. Vidger, 'The Federal National Mortgage Association, 1938–57', *Journal of Finance*, 16:1 (1961).
[54] A. Enthoven, 'The Growth of Instalment Credit and the Future of Prosperity', *American Economic Review*, 47:6 (1957); A. Chevan, 'The Growth of Home Ownership: 1940–1980', *Demography*, 26:2 (1989).
[55] J. Grant, *Money of the mind. Borrowing and lending in America from the Civil War to Michael Milken* (New York: Noonday Press, 1992), p. 265.
[56] G. Esping-Andersen, *The three worlds of welfare capitalism* (Princeton, NJ: Princeton University Press, 1990).
[57] Jacobs, 'Democracy's Third Estate'.
[58] M. Kazin, *The populist persuasion: an American history* (Ithaca, NY: Cornell University Press, 1998).
[59] Grant, *Money of the mind*, p. 264.
[60] Zweig, *Wriston*, p. 83.
[61] D. S. Ahearn, *Federal Reserve policy reappraised, 1951–1959* (New York and London: Columbia University Press, 1963).
[62] E. N. White, *The Comptroller and the transformation of American banking 1960–1990* (Washington, DC: Comptroller of the Currency, 1992), pp. 8–9.

3.4 The transformation and internationalisation of American finance

Traditionally, banks had a passive approach to the acquisition of funds. But with such strong competition for funds from financial markets and non-bank intermediaries, they adopted a more active approach.[63] Circumventing the New Deal restrictions, they turned to financial markets and began to raise funds through 'liability management' techniques. By far the most important of the new financial instruments was the so-called negotiable certificate of deposit (CD). CDs were time deposits (on which banks could offer higher rates than on demand deposits) for which banks created a secondary market.[64] CDs, then, functioned as demand deposits with interest rates that were able to attract the funds that they had lost when depositors started shifting funds from banks to the money market. Whereas in the past the money market had been a place where banks bought financial assets, in the new approach it started to function as a market where banks sold obligations and 'bought money'.[65] Thus, liability management entailed the renewed marketisation of American banking.[66]

Initially, during the early 1960s, the Fed accommodated the banks' strategies to raise funds by raising the rate on time deposits, so allowing the banks to offer interest rates that could compete with rising money market rates. But during the second half of the decade this began to give rise to serious contradictions. First, banks' access to reserves meant a loosening of the constraints on their capacity to create money and credit and had strongly inflationary effects, which was a problem from a domestic point of view, but, given growing balance of payments deficits, no less from a foreign policy perspective. Second, by 1965 the rate on time deposits had surpassed the interest ceilings on savings deposits, that is the maximum rate that the public was able to obtain at savings banks. This allowed commercial banks to lure funds away from the savings banks and precipitated a crisis in the thrift sector and the housing sector.

The Fed now began to more actively resist banks' liability management strategies. It engineered a contraction of credit which produced higher market rates, and at the same time refused to raise the interest rate ceilings. The banks experienced a renewed flight out of bank deposits, while at the same time their ability to borrow funds in the money market was severely jeopardised. In response they stepped up their efforts in financial innovation. The result was that the Fed and the banks became involved in what seemed like an endless tug of war.[67]

The strategy that would do most to emancipate the banks from the Fed's regulations was international in nature: at the end of the 1960s, in response to another contraction of credit, banks turned to the Euromarkets – the offshore market in dollars that had been growing over the course of the post-WWII period as a result

[63] R. Chernow, *The house of Morgan: an American banking dynasty and the rise of modern finance* (New York: Atlantic Monthly Press, 1990), p. 54.

[64] R. A. Degen, *The American monetary system. A concise survey of its evolution since 1896* (Massachusetts and Toronto: D.C. Heath and Company and Lexington, 1987), p. 131.

[65] R. T. Selden, *Trends and cycles in the commercial paper market* (New York: National Bureau of Economic Research, 1963), pp. 2–3.

[66] A. M. Wojnilower, 'Financial change in the United States', in M. d. Cecco (ed.), *Changing money. Financial innovation in developed countries* (Oxford/New York: Basil Blackwell, 1987); A. Landi and G. Lusignani 'Bank lending and the securitisation process: a comparative analysis', in J. Revell (ed.), *The recent evolution of financial systems* (Basingstoke: Houndsmill/New York: Macmillan, 1997).

[67] M. Mayer, *The bankers* (New York: Weybright and Talley, 1974).

of American capital exports – and they began to apply their new financial techniques in this realm outside of the Fed's jurisdiction.[68] Thus, a major force driving the international activities of American banks was their need to circumvent the Fed's domestic regulations and to import reserve funds from abroad for domestic use.[69] The internationalisation of American finance – which had begun hesitantly after the return to convertibility in 1958, when American banks had started following American corporations into the Euromarkets – now received a tremendous boost.[70]

3.5 Contradictions of structural power: financial expansion and instability during the late 20th century

As the Fed's concerns about its lack of domestic control continued to grow, the Treasury's concerns about the growth of Euromarket activity diminished dramatically. Throughout the 1960s the Treasury had been deeply worried about the growing balance of payments deficit and it had tried to contain dollar outflows by means of capital controls.[71] But now an awareness emerged that these deficits were not just America's own problem: while the internationalisation of American capital produced serious balance of payments problems, it also had the effect of creating a highly integrated and liquid financial structure that bore the stamp of specifically American practices and institutions and was shaped by American techniques to sell dollar debt. The awareness that the US could derive a great deal of power from this motivated a series of policy shifts that opened the floodgates of domestic and international finance.[72] The Nixon administration adopted a strategy of benign neglect, allowing the balance of payments deficit to grow unchecked with a view to shifting the burden of adjustment onto Europe. It subsequently suspended the convertibility of the dollar into gold. The dollar was devalued and capital controls lost much of their relevance. The end of Bretton Woods meant that all checks on the growth of the stock of expatriate dollars were gone.[73] The Eurodollar market, which earlier had been such a source of concern, now appeared as a market where the US could exercise extraordinary seigniorage privileges. US liabilities had become the basis of the

[68] S. Battilossi, 'Banking with multinationals: British clearing banks and the Euromarkets' challenge, 1958–1976', in S. Battilossi and Y. Cassis (ed.), *European banks and the American challenge. Competition and cooperation in international banking under Bretton Woods* (Oxford: Oxford University Press, 2002); E. Dickens, 'Financial crises, innovations and Federal Reserve control of the stock of money', *Contributions to Political Economy*, 9 (1990); E. Dickens, 'The great inflation and US monetary policy in the late 1960s: a political economic approach', *Social Concept*, 7:1 (1995); M. De Cecco, 'Inflation and structural change in the Euro-dollar market', in M. d. Cecco (ed.), *Monetary theory and economic institutions* (Basingstoke: Houndmills/London: Macmillan, 1987), p. 190.

[69] T. F. Huertas, 'US multinational banking: history and prospects', in G. Jones (ed.), *Banks as multinationals* (London and New York: Routledge, 1990), p. 254.

[70] G. Jones, 'Concentration and internationalization in banks after the Second World War', in S. Kinsey and L. Newton (ed.), *International banking in an age of transition. Globalisation, automation, banks and their archives* (Aldershot: Ashgate, 1998).

[71] F. J. Gavin, *Gold, dollars, and power : the politics of international monetary relations, 1958–1971* (Chapel Hill, NC: University of North Carolina Press, 2004).

[72] P. Gowan, *The global gamble* (London: Verso, 1999).

[73] R. Parboni, *The dollar and its rivals. Recession, inflation and international finance* (London: Verso, 1981), p. 38.

international monetary system, and balance of payment deficits became ever less of a concern.

However, the very same developments that loosened the external constraints on the US state tended to jeopardise its internal capacities: financial innovation and banks' access to the Euromarkets supported domestic financial expansion and continued to render problematic the Fed's attempt to regulate the domestic financial system.[74] Disintermediation trends became even more serious than during the previous decade and were reinforced by financialisation – which refers not to shifts of funds within the financial system but the entry of new funds into the financial sphere that had previously remained outside it. The combination of more restrictive Federal Reserve policies and banks' active pursuit of reserve liquidities had driven interest rates up considerably and given a boost to financial markets. With opportunities for productive investment under pressure and financial instruments offering high rates and capital gains, corporations began channelling large amounts of funds into the financial markets.[75] A similar blend of financialisation and disintermediation was represented by the dramatic growth of money market mutual funds, that is investment funds for ordinary people which grew at an astounding rate.[76] Other institutional investors (such as pension funds) grew rapidly too, although generally less spectacularly than mutual funds.

The entry of the American public into the financial system in its capacity of investor during the 1970s differed from earlier such episodes, which had been limited in quantitative terms and duration. For most of the 20th century, the American dream had motivated Americans to borrow, more so than it had motivated them to invest.[77] It was rising market interest rates and the renewed dynamism of financial markets – themselves in large part the result of the development by banks of new financial techniques in response to the demand for credit generated by Fordist patterns of economic growth and social integration – that, in a context of interest rate ceilings on deposits, motivated Americans en masse to start pouring their money into financial markets. But while it was the demand for credit that, through specific institutional mediations, produced conditions that led Americans to invest more, this dynamic also worked in the other direction: mass investment facilitated the expansion of consumer debt. The growth of mutual funds fuelled the expansion of financial markets and so did much to facilitate the raising of funds available by banks and other intermediaries.[78] Institutional investors also bought mortgage-backed securities, thereby allowing for the growth of mortgage financing.[79] The post-WWII

[74] Degen, *The American monetary system*, p. 140.
[75] Arrighi, 'The social and political economy of global turbulence'; G. R. Krippner, 'The financialization of the American economy', *Socio-Economic Review*, 3:2.
[76] F. R. Edwards, *The new finance. Regulation and financial stability* (Washington, DC: AEI Press, 1996); T. F. Cargill and G. G. Garcia, *Financial reform in the 1980s* (Stanford, CA: Hoover Institutions Press, 1985).
[77] C. R. Geisst, *Visionary capitalism : financial markets and the American dream in the twentieth century* (New York: Praeger, 1990).
[78] T. K. Kahn, 'Commercial paper', *Federal Reserve Bank of Richmond Economic Quarterly*, 79:2 (1993); J. A. James, 'The rise and fall of the commercial paper market, 1900–1929', in M. D. Bordo and R. Sylla (eds), *Anglo-American financial systems. Institutions and markets in the twentieth century* (Burr Ridge, IL/New York: Irwin Professional Publishing, 1995).
[79] L. D. Fink, 'The role of pension funds and other investors in securitized debt markets', in L. T. Kendall and M. J. Fishman (eds), *A primer on securitization* (Cambridge, MA and London: MIT Press, 1996).

baby-boomer generation had grown up and was ready to follow in their parents' footsteps of suburban home ownership. To secure their access to this key ingredient of the American dream, in 1970 Freddie Mac was founded to compete with Fannie May.[80] This gave a huge boost to the amount of mortgage-backed securities.[81] The expansion of American finance was now driven on by a mutually reinforcing interaction of the public's role as borrowers and their role as investors.

Having become a central part of the financial scene,[82] institutional investors came to constitute an important pressure group for the liberalisation of the securities industry. The advantages they could potentially derive from the sheer scale of their operations were negated by the self-regulatory structures of the securities industry which privileged a cartel-like network of brokers operating on the basis of fixed commissions.[83] The liberalisation lobby emphasised the interests of investors and such arguments found wide appeal.[84] They managed to politically exploit events that had transpired during the previous years, when a rise in the number of cases of fraud and insider trading had made clear that Glass-Steagall did not provide sufficient protection for the American public. The SEC responded with a shift away from its support for self-regulation and applied itself to the protection of investor interests by taking aim at insider trading practices, promoting market transparency and enforcing more competitive market structures.[85]

The liberalisation of the securities industry sparked a revolution in financial services.[86] The abolition of the fixed brokerage rate 'unleash[ed] a free-for-all among investment houses for the consumer dollar'.[87] Commercial banks, under ever greater competitive pressures but still faced with Regulation Q and restrictions on branch banking, now embarked on their own campaign for the deregulation of the banking sector[88] – also in the name of the small saver. But it would take time for these efforts to bear fruit. As long as the New Deal institutional framework was still in place, banks had few options other than to continue devising strategies designed to circumvent its regulations.[89]

As the 1970s progressed, the situation became increasingly untenable for the Federal Reserve. Pursuing restrictive policies within the New Deal framework merely fuelled financial innovation, while credit creation and inflation continued. A further constraint on the Fed's ability to combat inflation was the effects of restrictive

[80] L. C. Brendsel, 'Securitization's role in housing finance: the special contributions of the Government-Sponsored Enterprises', in L. T. Kendall and M. J. Fishman (eds), *A primer on securitization* (Cambridge, MA and London: MIT Press, 1996).

[81] Grant, *Money of the mind*, p. 352.

[82] Harmes, 'Institutional investors and the reproduction of neoliberalism'.

[83] A. M. Khademian, *The SEC and capital market regulation: the politics of expertise* (Pittsburgh, PA: University of Pittsburgh Press, 1992.

[84] Moran, *The politics of the financial services revolution*.

[85] J. Seligman, *The transformation of Wall Street. A history of the Securities and Exchange Commission and modern corporate finance* (New York: Aspen Publishers, 2003).

[86] Moran, *The politics of the financial services revolution*.

[87] Zweig, *Wriston*, p. 540.

[88] A. C. Sobel, *Domestic choices, international markets. Dismantling national barriers and liberalizing securities markets* (Ann Arbor, MI: University of Michigan Press, 1994).

[89] R. E. Litan, 'Reuniting investment and commercial banking', in C. England and T. Huertas (eds), *The financial services revolution. Policy directions for the future* (Boston, MA: Kluwer Academic Publishers, 1987); A. N. Berger, A. K. Kashyap and J. M. Scalise 'The transformation of the US banking industry: what a long, strange trip it's been', *Brookings Papers on Economic Activity*, 2 (1995).

policies on the politically sensitive housing sector. Higher market interest rates resulted in a flow of funds from thrifts to the money market, forcing thrifts to cut down on their lending, thus jeopardising the housing sector.[90] Ever larger swathes of financial activity were outside the Fed's jurisdiction and this greatly complicated its ability to function as a modern central bank with tasks for macroeconomic stabilisation.[91] A high rate of inflation was not only a problem for purely domestic reasons, but it also began to affect foreigners' willingness to hold dollar debt, putting considerable pressure on the dollar. Thus, towards the end of the 1970s the inability of American authorities to manage the dynamics of the domestic financial system also began to affect the US's ability to continue benefiting from the proliferation of structural power relations.

3.6 Monetarism, neoliberalism and the creation of infrastructural capacity

The transition to monetarism and neoliberalism during the late 1970s and early 1980s effected a reconfiguration of the institutional framework of structural power relations.[92] The idea behind the Fed's introduction of monetarist operating procedures in 1979 under chairman Volcker was that instead of regulating banks' demand for credit in the money market, it would control the total amount of reserves in the banking system and so directly control the total amount of credit and money created.[93] However, the creation of credit and money failed to slow down. In a definitional sense it was of course true that there was a direct correspondence between total reserves and the creation of money and credit, but there was little in the Fed's approach that undermined banks' ability to employ the new financial techniques allowing them easy access to liabilities.[94] Indeed, the Volcker shock was followed by the beginning of a process of deregulation that gave financial innovation free rein. The economic and financial misery of the 1970s had allowed the New Right to recruit a broad base of support and to effect a decisive break with the New Deal institutions.[95] In the name of the American worker and the American dream, the Reagan administration implemented a massive programme of deregulation. For both banks and thrifts, the interest rate ceilings were abolished and both the sources that depository institutions could draw on for funds and the uses to which they could put these funds were expanded.[96] They fully exploited the opportunities opened up by these reforms.

[90] Johnson, *The government of money*.
[91] Degen, *The American monetary system*.
[92] Panitch and Gindin, 'Finance and American empire'; M. Konings, 'The Institutional Foundations of US Structural Power in International Finance: From the Re-emergence of Global Finance to the Monetarist Turn', *Review of International Political Economy*, 15:1 (2008).
[93] A.-M. Meulendyke, 'A Review of Federal Reserve Policy Targets and Operating Guides in Recent Decades', *Federal Reserve Bank of New York Quarterly Review*, 13:3 (1988); P. A. Volcker and T. Gyohten, *Changing fortunes. The world's money and the threat to American leadership* (New York: Times Books, 1992).
[94] Greider, *Secrets of the temple*.
[95] M. N. Lyons, 'Business conflict and right-wing movements', in A. E. Ansell (ed.), *Unraveling the Right. The new conservatism in American thought and politics* (Boulder, CO and Oxford: Westview, 1998).
[96] Cargill and Garcia, *Financial reform in the 1980s*; S. J. Khoury, *US banking and its regulation in the political context* (Lanham, MD and Oxford: University Press of America, 1997).

However, the Fed found, to its surprise, that the ongoing expansion of money and credit no longer resulted in high rates of inflation. Banks' access to Euromarket funds no longer had the same effects as in the 1970s. Something had changed in the institutional parameters within which the expansion of American finance occurred. The Fed's new operating procedures were not effective in restricting credit creation, but now little of that credit created found its way into the real economy. Instead, skyrocketing interest rates – in large part precisely the result of banks stepping up their liability management strategies[97] – served to suck funds into the financial sphere, thus simultaneously containing inflation and promoting financial expansion.[98] The Fed's policies accelerated processes of financialisation and drew in large capital flows.[99] The latter also pushed up the exchange rate of the dollar, thereby reinforcing the economic recession and fuelling financialisation.

The redirection of financial flows from productive investment into financial channels, the savings that fuelled the growth of institutional investors and the massive inflows of foreign capital served to finance growing public and private indebtedness.[100] America was borrowing like never before. Total American debt in 1984 was twice as high as in 1977.[101] The extraordinarily high demand for credit may seem incongruous in view of the high interest rates. However, a great deal of credit was extended precisely for financial speculation.[102] Moreover, the Reagan administration suffered huge budget deficits and if there is a relation between government deficits and interest rates, it is probably a positive one: the government borrows to finance its interest payments, and high rates therefore result in a rapid growth of the debt and higher financing requirements. The growth of mortgage and consumer debt was characterised by a similar cumulative logic: insofar as people are already locked into certain commitments, rising rates will lead to higher rather than lower financing requirements. In addition, for the middle classes the 'wealth effect' of rising asset prices did much to take the edge off the reality of higher interest payments. Moreover, the culture of debt deepened further, extending from responsible middle-class borrowing for durable consumer items to desperation-driven lower-class borrowing for necessary everyday items. The Reagan administration's dismantling of social services and its assault on labour unions had a devastating impact on the income of the lower strata of the American population, leaving them with little choice other than to borrow against unfavourable rates, and often to borrow more in order to be able to repay their loans and interest charges when they came due.[103] Many got caught in a cycle of consumer debt.

97 Greider, *Secrets of the temple*.

98 C. Rude (2004) 'The Volcker Monetary Policy Shocks: A Political-Economic Analysis', unpublished paper, Department of Economics, New School University.

99 G. R. Krippner, *The fictitious economy: financialization, the state, and contemporary capitalism* (PhD thesis, University of Wisconsin-Madison, 2003); B. A. Wigmore, *Securities market in the 1980s. Vol. 1 The new regime, 1979–1984* (New York and Oxford: Oxford University Press, 1997); G. Duménil and D. Levy (2004) *Capital resurgent. Roots of the neoliberal revolution* (Cambridge, MA and London: Harvard University Press).

100 R. Guttmann, *How credit-money shapes the economy. The United States in a global system*, (Armonk, NY and London: M.E. Sharpe, 1994); Duménil and Levy, *Capital resurgent*, pp. 78–85.

101 Greider, *Secrets of the temple*, p. 658.

102 Ibid.

103 J. Montgomerie, 'Giving credit where it's due: public policy and household debt in the United States, the United Kingdom, and Canada', *Policy and Society*, 25:3 (2006).

America's increasing indebtedness fuelled the growing depth and liquidity of financial markets, and this dynamic of expansion served to promote the kind of strategies that had underlain the creation of the distinctively American institutional framework of structural power relations in the first place. That is, financial expansion accelerated the securitisation of credit relations and the development of new techniques to sell debt,[104] and these strategies of financial innovation no longer generated the same contradictions as during the previous decades: financial innovation and credit creation had not been brought to a halt but been embedded in a new institutional regime that served to redirect credit flows in a way that addressed popular misgivings about inflation and increased rather than jeopardised US financial power in the international arena.[105]

To be sure, it took a decade of further tinkering and tweaking before this new institutional framework was fully adequate to the task of managing financial expansion. The explosion of American finance resulted in considerable financial instability that culminated in the 1987 crash and prompted further deregulation (facilitating branch banking and the combination of commercial and investment banking).[106] This created the context in which American finance could continue to expand. Throughout the 1990s, consumer debt increased dramatically, as did mass investment. But it was precisely the expansion of financial markets that served to improve the Fed's control over the financial system. While it still enjoyed little control over the pace of money and credit creation, over the course of the 1990s the Fed developed an extraordinary degree of control over the direction of financial flows.[107] The growth of market size and liquidity improved market arbitrage and this meant that changes in the Fed-determined rate for bank funds were almost instantly transmitted to other financial markets.[108] The Fed could use this new-found capacity to promote high levels of financialisation and prevent the undiminished creation of liquidity from spilling over into the real economy and causing inflation. Thus, at the same time as financial markets were expanding at an unprecedented rate and becoming ever more fluid, the Fed's ability to regulate these markets increased. The securitisation and marketisation of American finance ultimately served to enhance the Fed's control.

Thus, the neoliberal and monetarist transformation of American finance had little to do with the American state submitting itself to the dictates of international finance and much more with the creation of new institutional linkages that greatly enhanced the capacity of the American state. Monetarism and neoliberalism eliminated some major contradictions in the institutional steering mechanisms put in place with the

[104] Seabrooke, *US power in international finance*; T. D. Simpson, 'Features of the new financial system in the United States', in H. Cavanna (ed.), *Financial innovation* (London and New York: Routledge, 1992); Berger, Kashyap and Scalise 'The transformation of the US banking industry'.

[105] Arrighi, 'The social and political economy of global turbulence'.

[106] R. Deeg and S. Lütz, 'Internationalization and Regulatory Federalism in Financial Systems: The United States and Germany at the Crossroads?', *Comparative Political Studies*, 33:3 (2000); Berger, Kashyap and Scalise 'The transformation of the US banking industry'; M. M. Polski, *The invisible hands of US commercial banking reform. Private action and public guarantees* (Boston, MA: Kluwer Academic Publishers, 2003).

[107] G. R. Krippner, 'The making of US monetary policy: central bank transparency and the neoliberal dilemma', *Theory and Society*, 36:6.

[108] S. M. Phillips, 'The place of securitization in the financial system: implications for banking and monetary policy', in L. T. Kendall and M. J. Fishman (eds), *A primer on securitization* (Cambridge, MA and London: MIT Press, 1996).

New Deal. In this sense, they represented a major step in the direction of the realisation of the vision of integral statehood and infrastructural state capacity introduced during the New Deal. Economic dynamics that had earlier created severe regulatory problems for the US state had over time been transformed so as to enhance US state capacity.

4. Conclusion

This account of the neoliberal era differs from that offered by IPE. Because the latter pays insufficient attention to the social sources of financial power, it still relies too much on an external conception of state power and structural power. And from such a perspective financial expansion still appears as the tendential disembedding of finance from institutional frameworks and political authority. This paper, by contrast, has given an account of the social and historical construction of US financial power through the emergence, over the course of the 20th century, of a high degree of institutional connectedness, relational density and infrastructural capacity. It has been shown that these processes have shaped the dynamics of globalisation to their core; in an important sense, financial globalisation is better understood as a process through which the dramatic expansion of American finance began to assume international dimensions than as the re-emergence of global finance. Thus, financial globalisation and the turn to neoliberalism have been interpreted not in terms of the erosion but rather the consolidation of the institutional foundations of US financial power.

The insights in this paper, while primarily historical and conceptual, also have a bearing on our understanding of American finance as it heads into the 21st century. The emphasis on the hegemonic integration of the American lower classes as the driving force behind the mutually reinforcing interaction between the internal and external expansion of American finance is consistent with an hypothesis that, in the foreseeable future, any fundamental challenges to American financial power are likely to stem from the contradictions embedded in the institutional mechanisms of hegemonic socialisation. This is by no means to downplay the potential impact of more external challenges, but rather to suggest that their seriousness is likely to be mediated by and dependent on the coherence and integrity of the institutional linkages between low finance, high finance and the American state, that is, the social sources of American financial power.

For instance, some saw the bursting of the dot-com bubble in 2001 as signalling the end of neoliberal financial expansion:[109] it was claimed that the stock market run-up and growth of consumer debt during the late 1990s were revealed to have been built on quicksand, and that foreigners would no longer be willing to finance American indebtedness. However, crisis and instability are part and parcel of the history of American financial growth, and to a large extent they are the reflections of the depth of transformation effected by continuous innovation. Seen from the present, it seems that the dot-com boom and bust did not escape the institutional framework as this was consolidated during the neoliberal era. American finance picked up its pace of expansion relatively easily: the following years saw a surge in

[109] For example R. Brenner, 'Towards the precipice', *London Review of Books*, 6 February 2003.

financial innovation, consumer debt continued to grow, New York benefited handsomely from the ongoing centralisation of financial activity in the world's largest financial centres,[110] and the Fed's reputation and ability to influence the markets survived largely intact (ensuring Alan Greenspan's virtual apotheosis when he retired).

The question at present is if this will also turn out to be the case for the liquidity crunch brought on by the crisis in the subprime mortgage sector, that is, if the US state will be able to prevent it from spiralling into a prolonged period of paralysis that might threaten the very foundations of US financial power. This question is particularly salient as the crisis has emanated from a sphere that this paper has identified as a key source of US financial strength. To be sure, the immediate impact of the crisis should not be overstated: the US has been able to avert many of the consequences onto the financial systems of other countries; investors' aversion of risk has meant a huge flow of funds to Treasury securities; and while the declining value of the dollar reflects investors' concerns with regard to the state of American financial markets, as an international currency it remains far ahead of potential rivals. But that is precisely the point: the significance of the current crisis lies less in an immediate assault on US financial competitiveness *vis-à-vis* other countries than in the possibility of a more fundamental challenge to the networks of institutional connections that lie at the root of the US's structural capacity to not only benefit from but also to regulate and stabilise the dynamics of financial markets. As the subprime crisis has struck at the central nervous system of American finance and raised fundamental questions concerning the capacity of financial institutions to integrate America's lower classes, the magnitude of this managerial task is perhaps greater than in any other recent crisis. Relations of bad credit have been found throughout the financial system and the deep sense of uncertainty produced by this has made the task of rekindling confidence in financial markets and institutions particularly onerous. Most conspicuously, efforts by the Fed to pump liquidity into the markets have been much less effective than during other recent episodes of financial turbulence.

At the same time, however, it should be noted that, for all the difficulties created by the mingling of debt and poverty, the credit crunch has not resulted in any significant delegitimation of key financial institutions: the connections that have become apparent with the crisis have not been claimed by other, counter-hegemonic discourses and institutions. The public discussion following the onset of the crisis has been largely technical and instrumental, and the notion that the crisis is bound up with the failure of financial institutions to address and integrate the concerns and ambitions of poor people has become an issue of mainstream political concern mostly insofar as it also is a source of worry for banks and hedge funds.[111] It this remains the case, chances are that the American state and financial intermediaries will be able to reconvert the genuine uncertainty of the present situation back into risk – that aspect of unresolved tension in our social relationships that can still be formalised and operationalised and has always been a major source of opportunities for American financial innovation and expansion.

[110] M. Konings, 'European finance in the American mirror: financial change and the reconfiguration of competitiveness', *Contemporary Politics*, 14:3 (2008).

[111] M. Konings and L. Panitch, 'The Politics of Imperial Finance', in L. Panitch and M. Konings (eds), *American Empire and the Political Economy of Global Finance* (New York: Palgrave, 2008).