

United States Hegemony and the Structural Power of Finance

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Master's Thesis

September 2013

University of Helsinki

Department of Political and Economic Studies



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HELSINGFORS UNIVERSITET
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Tiedekunta/Osasto – Fakultet/Sektion – Faculty
Faculty of Social Sciences

Laitos – Institution – Department

Department of Political and Economic Studies

Tekijä – Författare – Author

Kyle Bailey

Työn nimi – Arbetets titel – Title

United States Hegemony and the Structural Power of Finance

Oppiaine – Läroämne – Subject

World Politics

Työn laji – Arbetets art – Level

Master of Social Sciences

Aika – Datum – Month and year

September 2013

Sivumäärä – Sidoantal – Number of pages

80

Tiivistelmä – Referat – Abstract

This thesis advances and substantiates the claim that financialization and hegemony in the twentieth century are two sides of the same process. It begins by reviewing the insights and limitations of existing theories of hegemony and world order in the international political economy and international relations literature. Foundational categories in the theory of hegemony, such as capital, the state, money, finance and globalization are then re-examined with the intent of superseding some of the major limitations of existing theories. This re-examination yields the rudiments of a social and political theory of United States hegemony, one that understands the structure of hegemony as being rooted in both the state and capitalist society and explains its historical evolution with reference to the successive attempts of US state institutions to problematize, manage and contain the social antagonisms, structural contradictions and strategic dilemmas generated by the expanded reproduction of capitalist social relations. These theoretical insights are then deployed in order to construct a historical account of the material and social reproduction and transformation of US hegemony from the interwar period to the 1980s. This account demonstrates much more concretely the complex and contradictory historical dialectic of financialization and the state that has been the motor force of hegemony in the twentieth century.

Avainsanat – Nyckelord – Keywords

Capital, financialization, globalization, hegemony, the state, United States

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1 Introduction

Given the continued hegemony of the United States in the capitalist world-economy and interstate system, an important task for research in international political economy and international relations will be to understand and explain the material and social foundations of hegemony, their structuring and historical reproduction. In particular, given the increasing centrality of ‘financialization’ as an analytic concept organizing critical theoretical and empirical reflection on the changing political economy of contemporary capitalism—especially in the wake of the great financial crisis and recession of 2007—it will be necessary to explicate the relationship between the power of money that is routinely exercised in financial markets and United States hegemony. The central thesis of this work is that these two phenomena, while they may appear to be separate, are in fact internally related and mutually constitute one another. In this respect, the numerous arguments which are marshalled in the proceeding sections can be viewed as parts of an overarching attempt to substantiate the claim that finance and hegemony are so inextricably bound together within a complex and contradictory unity of opposites that it is basically impossible to adequately grasp one in isolation from the other.

Contending theories and methodologies of economics, politics and international relations have played a major role in divorcing the study of American hegemony from the study of financial markets. In particular, a view of the state as separate from and standing above the society over which it governs has led to an overemphasis on the formal institutional separation between capital and the state at the expense of a more integrated understanding premised on the idea that the state itself is a social relation which, although mediated by specific institutional contexts, is fundamentally embedded in society. Consequently, analysts have not been inclined to examine the manner in which state institutions do not simply seek to support their ‘national capital’, but are instead to varying degrees implicated in managing the structural contradictions and strategic dilemmas brought into existence by the abstract and impersonal imperative to reproduce capital accumulation for its own sake on an ever-expanding scale. Nowhere is this more evident than in the case of the United States. Indeed, far from pursuing its own ‘national interests’, narrowly conceived in realist terms, or seeking to provide ‘public goods’ through the construction of mutually beneficial international

regimes, the US has, more than any other state, attempted to grapple with these contradictions and dilemmas as part of an expansive and evolving political project to maximize the sphere of operation of capitalist social relations.

The structure of the argument is as follows. Sections 2–5 grapple with theoretical issues in the study of international political economy and international relations of relevance to understanding transformations in US hegemony during the latter half of the twentieth century. Section 2 surveys existing theories of hegemony, both mainstream and radical. It looks specifically at hegemonic stability theory and world-systems analysis. It will be suggested that, in different ways, these perspectives frame their accounts of US hegemony through the prism of a teleological ‘declinist’ narrative—one which emerges as the result of the failure to integrate more adequate theories of money and finance, the state and capital, and domestic and international political economy into their analyses. Lastly, it will be suggested that neo-Gramscian Marxist perspectives represent an advance in attempting to overcome some of these conceptual inadequacies. Section 3 outlines a broadly Marxist perspective on politics and the state in a capitalist society, emphasizing in particular the complex formal separation and substantive material interdependence of state and society, as well as the indeterminate dialectic of state institutions and political struggles implied by the state’s necessary functional role as a site where strategic responses to the social antagonisms and structural contradictions generated by the structural power of capital are articulated.

Section 4 kicks off with a comparison of neoclassical and Marxist theories of money. It is suggested that money is not a neutral economic technology, but rather an elementary form of sovereignty and state power in capitalist society that is organically linked to the process of capital accumulation for its own sake. The capitalist credit system is then analysed as an institutional expression of this organic linkage and of the concentration and centralization of capital into ever fewer and larger organizational units. It is suggested that the credit system enables the systematic production of new credit money, the appropriation of surplus value in production enables the system-wide repayment of interest, and control over the issue of state fiat money, as well as a variable degree of control over capitalist credit money, is concentrated in the state central bank. Section 5 turns to discuss a fundamental contradiction of capitalist society between, on the one hand, the spatial mobility and expansionary dynamic of capitalist social relations, and on the other side, the territorial fixity of national states in the interstate system. While ‘economic globalization’ is interpreted as intensifying the external

structural constraints placed upon the exercise of power by national states, the narrative rejects the idea that the relationship between states and markets implied by economic globalization is solely antagonistic. It also discusses how ‘political globalization’ has both enabled the spatial expansion of capital and led to a rebalancing of the relationship between the internal and external obligations of states.

Sections 6–11 then attempt to apply these theoretical insights as part of a reinterpretation of the complex and contradictory development of US hegemony in the twentieth century. Section 6 begins with some historical background regarding the material and social bases of US hegemony. This brief sketch focuses in particular on the development of a distinct pattern of financial banking in postbellum America, as well as the emergence of the joint-stock form of capitalist company. It also discusses early patterns of capitalist crisis and internationalization in the late nineteenth and early twentieth centuries. Section 7 focuses on the emergence of corporate liberalism and the Keynesian regulatory state as strategic responses to the social antagonisms and structural contradictions generated by capitalist development in the United States. Particular emphasis is placed upon the financial legislation introduced by the Roosevelt administration in 1933 and 1935 as part of its New Deal for the American people and the impact of these reforms on the contradictory ‘laws of motion’ of capitalist development in the United States.

Section 8 discusses the emergence of a partial liberal internationalist settlement in US foreign economic policy and international economic diplomacy during the early twentieth century, its collapse during the turmoil of the Great Depression and subsequent resurrection in the context of the Roosevelt administration’s corporate liberal political project through the 1941 Atlantic Charter and the Bretton Woods international monetary and financial conference of 1944. The narrative emphasizes the extent to which the US was able to internationalize corporate liberal hegemony and formalize its dominant position—and in particular the status of the dollar as international money—within the institutional design of the Bretton Woods regime. Section 9 identifies a major structural contradiction of Atlantic capitalism in the immediate post-Second World War period, one related to the immense concentration of international liquidity in the US economy. It discusses the evolving struggle between financial capitalists and New Dealers in the US state apparatus over how best to respond to the strategic dilemmas raised by this contradiction and suggests that the eventual outcome of this process was a ‘New Deal’ for the world economy. This New Deal was relatively

successful in terms of its capacity to guarantee the social conditions of capital accumulation in a context of heightened class struggles between capital and labour by redistributing international money more evenly among states in order to resolve structural balance of payments imbalances.

Sections 10 and 11 examine the emergent contradictions of the New Deal for the world economy by looking at, firstly, the US dollar's dual role as national and international money and the transformation of the international dollar shortage of the immediate post-Second World period into a dollar glut, and secondly, the struggle of the US state, and in particular the Federal Reserve, to maintain regulatory control over, and quash inflationary pressures in, the new world of offshore financial flows which had to this point functioned to defer the contradictions of the New Deal banking and financial reforms through the maintenance of an 'exit option' for American finance. As these contradictions intensified and condensed, the Federal Reserve would eventually be forced to abandon half measures and embark on a radical monetarist and neoliberal policy experiment that represented nothing less than a transformation of hegemony in the world-system as a whole. The narrative emphasizes that the adoption of neoliberal policies by the US state, such as liberalization, deregulation, privatization and the reduction of capital taxation, should be interpreted as a response to the structural contradictions and strategic dilemmas raised by the internationalization of corporate liberalism and the New Deal for the world economy.

2 Hegemony and world order in the twentieth century

Accounts of United States hegemony in mainstream international relations have drawn on hegemonic stability theory. According to this theory, the early post-Second World War period was one in which the United States was committed to the construction of liberal international economic norms. Given this commitment and its new found position at the apex of the hierarchy of capitalist states, the US sought to utilize the considerable power resources at its disposal (both military and financial) in order to construct a 'liberal international economic order' (Kindleberger 1986; Keohane 1984; Gilpin 2001). On the one hand, the latter is sub-divided by hegemonic stability theorists into various 'international regimes', including those related to the collective management of international security, money, finance, trade and investment by states. On the other hand, a sense of its unity is captured by

Ruggie's concept of 'embedded liberalism', which describes the process through which United States hegemony produced benefits for all states through the provision of international public goods, such as managed fixed exchange rates, multilateral forums for correcting balance of payments imbalances, liberalizing trade and negotiating collective security, and controls on speculative capital flows (Ruggie 1982). The outcome of this stable international economic environment was rates of profitability and growth entirely unprecedented in the history of capitalism, which provided states with the necessary resources to pursue expansionary and inclusive domestic monetary and fiscal policies designed to redistribute benefits to all of their citizens.

However, the stable international economic environment created by embedded liberalism subsequently unravelled. In this respect, Gilpin (1975) has argued that US hegemony was self-effacing insofar as its logic entailed the gradual development of the productive capacity of rival states, mostly notably Germany and Japan. This undermined the US's economic competitiveness, as reflected in its deteriorating balance of payments position and the conversion of its national currency into gold. Unwilling to abandon the dollar's status as world money or reduce its domestic public expenditure, the US eventually chose to abandon its hegemonic responsibilities in favour of a more narrow conception of its national interests. This resulted in the collapse of the Bretton Woods system of fixed exchange rates and the structures of embedded liberalism that had buttressed the international system during the 1950s and 1960s. Keohane (1984: 178) sums up this position when he concludes that 'the relatively benign attention that the United States gave to the political economy of Western capitalism, rested on American industrial and financial dominance, as well as on American political and military power'.

In the absence of hegemonic order, the international system of the 1970s became an increasingly more hostile and chaotic place. This period saw the re-emergence of serious economic and social crises, including stagnating economic growth, inflation (including massive oil price inflation), monetary and financial volatility, a resurgent 'new protectionism' and new radical social movements. The gradual re-establishment of world order which followed during the 1980s has been associated less with the interventions of a hegemonic state than with a transformation in the relative balance of power between states and markets. In this respect, mainstream liberal theories of 'economic globalization' have drawn attention to the increases in aggregate economic welfare which follow from free trade between

countries and the potentially beneficial role of international markets in disciplining the behaviour of economically illiberal states. The crux of this theory is that the balance of power between states and markets has shifted markedly in favour of the latter during the last third of the twentieth century, as the increasing mobility of capital across national boundaries enabled by technological innovations in computing and transportation systems has ushered in a new ‘post-Westphalian’ age. Within these transformed parameters, the territoriality of national states—once a virtue—now becomes a hindrance, as states are increasingly forced to compete with one another in order to maintain their existing trade and attract new investment via a ‘race to the bottom’ in taxation and regulatory standards (Marsh et al. 2006; Hay 2005: 239). The principal conclusion drawn by this analysis is therefore that multinational capital imposes structural constraints on the capacity of national states to pursue illiberal economic policies (Reich 1991).

A major problem with hegemonic stability theory is that it overemphasizes the role of the American state as a provider of ‘public goods’ in a liberal international economic order. As a result, it too closely equates US hegemony with the maintenance of a particular set of institutions which promote rapid capital accumulation. The collapse of the Bretton Woods regime and of ‘embedded liberalism’ more generally is consequently regarded as being synonymous with the decline of US hegemony itself. This conclusion overlooks the capacity of the hegemonic state to exercise transformative agency by responding to economic and political crises. Such responses may involve the gradual construction of new institutional forms which are capable of regularizing capital accumulation and facilitating a new long-wave of economic growth. Another problem with the account of US hegemony found in hegemonic stability theory concerns its understanding of the sources of economic dynamism and competitiveness. In particular, the role of the US dollar as international money and of New York as the world’s principal financial centre is not taken seriously—especially in Ruggie’s analysis of ‘embedded liberalism’, with its assumption that financial capital was ‘repressed’ during this period—resulting in a one-sided emphasis analysis of the US balance of payments centred on the current account. A more adequate analysis would be required to take the role of money and finance much more seriously by integrating an analysis of the capitalist credit system, state central bank and the capital account into the study of US hegemony. Lastly, there is an evident disconnect between the theory of hegemonic stability and the seemingly disorderly system of international offshore financial markets brought into

being by the process of economic globalization. A more adequate theory would be required to ascertain the links between hegemony and globalization.

The concept of hegemony has a different meaning in the Marxist literature. In world-systems analysis, hegemony is an attribute of a state in the interstate system of a world-economy. A hegemonic state is one that is significantly stronger than other strong states in being able ‘to impose its set of rules on the interstate system, and thereby create a world political order as it thinks wise’ (Wallerstein 2011: xxii). Hegemony is not a structure, but rather a process in time. According to Wallerstein (Ibid.: xxiii), it consists of four identifiable moments:

If one starts the story when there is an uncontested hegemonic power, the first moment occurs in the period immediately thereafter. It is the moment of the slow decline of the hegemonic power, during which two powers emerge as contenders for the succession. The moment after that is when the decline has become definitive. We can think of this second moment as one in which there is a “balance of power” in the world-system. During this moment, the two contenders for hegemony struggle to secure geopolitical and world-economic advantage. The third moment is when the struggle becomes so acute that order breaks down and there is a “thirty years war” between the contenders for hegemony. And the fourth moment is when one of the contenders wins definitively and is therefore able to establish a true hegemony—until, of course, the slow decline begins.

From this perspective, hegemony is the punctuated rise and gradual decline of a great power. Consequently, the period of ‘uncontested hegemonic power’ is short-lived. This theory of hegemony leads Wallerstein to the conclusion that the United States was hegemonic in this sense from 1945 to 1967/73, following the culmination of its ‘thirty years war’ with Germany. In this respect, United States hegemony is the mirror image of the hegemony of the United Provinces from 1648 to the 1960s and of the United Kingdom from 1815 to approximately 1848. From this reading, it follows that subsequent years document the slow but inevitable decline and eventual supersession of the hegemonic power. The US after 1967/73 is no exception to the rule.

Wallerstein’s theory of hegemony is problematic, first and foremost, because it is ‘structuralist’. The major problem with structuralism is that it tends to bypass the crucial role of social practices in the reproduction of social forms, making it appear as if the latter are self-perpetuating—that is, subsist entirely independently of human agency. To paraphrase Bhaskar’s (1979: 43) reformulation of Marx’s famous insight that ‘[m]en make their own

history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly found, given and transmitted from the past' (Tucker 1978: 595), in Wallerstein's account, hegemony is both the ever-present condition and *not* the continually reproduced outcome of human agency. It therefore does not refer to an historical process in the Marxist sense, but rather to a reified diachronic structure or 'thing'. The consequences of structuralism for Wallerstein's theory of hegemony mean that he interprets United States hegemony mainly from the perspective of a timeless structure of opportunities and constraints placed upon state behaviour by the impersonal operation of the interstate system of the capitalist world-economy. The decline and eventual supersession of the United States as a hegemonic power is then always prescribed in advance. If there is a crisis, then it is invariably a crisis *of* hegemony.

Other world-systems analysts have attempted to improve on Wallerstein's theory of hegemony. Of particular significance is Arrighi's (1994) formulation of a theory of 'systemic cycles of accumulation'. This theory explicitly links processes of capital accumulation in the capitalist world-economy to the power of hegemonic states in the interstate system.

According to Arrighi, a systemic cycle of accumulation is characterized by, on the one hand, a phase of 'material expansion' where 'money capital "sets in motion" an increasing mass of commodities (including commoditized labour-power and gifts of nature)', and on the other hand, a phase of 'financial expansion' in which 'an increasing mass of money capital "sets itself free" from its commodity form, and accumulation proceeds through financial deals' (Ibid.: 6). Phases of material expansion are marked by continuous change in which the capitalist world-economy grows along a single developmental path, while phases of financial expansion are marked by discontinuous change 'during which growth along the established path has attained or is attaining its limits, and the capitalist world-economy "shifts" through radical restructurings and reorganizations onto another path' (Ibid.: 9). These recurrent expansions and restructurings, in turn, occur 'under the leadership of particular communities and blocs of governmental and business agencies' (Ibid.).

On the basis of this conceptual framework, Arrighi posits the existence of a 'US systemic cycle of accumulation'. This systemic cycle of accumulation is dated as beginning with a phase of material expansion during the late nineteenth century, which then subsequently morphed into a financial expansion around the late 1960s/early 1970s. Like in the prior Genoese, Dutch and British systemic cycles of accumulation which Arrighi identifies,

‘financialization’ is perceived to play a key role in the transition from one hegemonic power to another. Put simply, the expansion of production and trade which is the motor of hegemonic power during the material phase of expansion later becomes a fetter to further growth as it generates its own contradictions in the form of an overaccumulation of capital. These contradictions can only be resolved through the transfer of capital away from the existing hegemon and towards a rising power within whose national economy the foundations of a new phase of material expansion are present (Ibid.: 5–6). As a result of this particular understanding of the nature of financialization, Arrighi concludes that the financial phase of expansion of the US systemic cycle of accumulation marks the point at which ‘the structures of the now “old” US regime are being destroyed and those of a “new” regime are presumably being created’ (Ibid.: x).

While Arrighi is arguably more attuned to the complex and contingent interplay between social struggles and institutions that is constitutive of historical process than is Wallerstein, his analysis ultimately draws a similar conclusion. Once a systemic cycle of accumulation has embarked upon its financial phase of expansion, then the decline and eventual supersession of the hegemonic power under whose leadership this expansion occurs is more or less guaranteed. Thus, while ‘blocs’ of US governmental and business agencies may act strategically to *delay* the process of hegemonic decline, they are ultimately incapable of forestalling it. This issue is compounded by Arrighi’s problematic understanding of capitalist development, which is premised on a superficial distinction between recurring phases of material and financial expansion. This understanding presupposes an inadequate conception of financial accumulation as a ‘non-material’ supplement to ‘real’ accumulation—one that specifically overlooks the integral nature of the relationship between money and commodities in a capitalist society, as well as the complex, potentially antagonistic and contradictory relations between financial corporations, central banks and finance ministries which constitute a hallmark of struggles over the form and trajectory of accumulation for its own sake.

In some respects, the body of ‘neo-Gramscian’ Marxist theory associated with Cox, van der Pijl, Gill and others represents an advance on perspectives informed by world-systems analysis. Drawing on Gramsci’s conception of hegemony as a social relation between leaders and led, neo-Gramscians enact a theoretical break with mechanical ‘structuralism’ by emphasizing the social practices of political, intellectual and moral leadership through which

consent for bourgeois rule is constructed among subordinate classes and social groups. This understanding of the role of continued strategic action by leading social forces as a necessary condition for the maintenance of social structures of exploitation and domination has led Gill (1990, 2002) to reappraise the 1970s and 1980s as a ‘crisis of hegemony’ marked by protracted social and political struggles between contending coalitions of forces advocating different accumulation strategies, state projects and hegemonic projects. In the United States, this crisis is seen as having been eventually resolved via a gradual process of restructuring of US ‘national interests’, that came to be redefined as the result of strategic interventions by private international relations councils, such as the Trilateral Commission. These councils succeeded in forging a new ‘transnational liberal’ hegemonic consensus among the representatives of leading capitalist states, who subsequently committed themselves to a conception of ‘global governance’ as the necessary counterpart to an emergent transnational capitalist market economy (see also Cox 1987).

The concept of hegemony forms a crucial mediating link between the power of states and the power of capital in a capitalist society, as well as between ‘domestic’ and ‘international’ politics through the process that Cox (1987) refers to as the ‘internationalisation of the state’. However, what remains unresolved in neo-Gramscian approaches to United States hegemony, as Panitch (1994: 73) has perceptively highlighted, is the *relative importance* of the processes of internationalization of capital and the state which struggles for hegemony serve to mediate.

On the one hand, there is one image of an increasingly centralised supranational management structure, founded on ideological consensus among the elites that populate transnational institutions and forums ... Is it this that transmits and links hyperliberal policy from country to country? On the other hand, there is another image of an unregulated system of international finance—which appears to be unregulated, moreover, in good part because of an inability to forge policy consensus at an interstate level. Is it this system of international finance that internationalises the state, making accountable national policy makers of whatever ideological contention?

The strong emphasis on ideology and struggles for hegemony characteristic of neo-Gramscian perspectives therefore gives rise to an unresolved antinomy. Unlike in the case of Arrighi’s theory of ‘systemic cycles of accumulation’, where this antinomy took the form of a dualism between ‘the material’ and ‘the financial’, neo-Gramscian theories of hegemony fail to adequately integrate ‘the material’ and ‘the ideational’ within a systematically unified account.

In order to begin to move beyond the limitations of existing accounts of US hegemony and world order, it will be necessary to provide theoretical foundations for key variables. The upcoming three sections will address some of the key issues by examining three sets of ‘relations among relations’: (1) capital, the state and struggles for hegemony; (2) money, the capitalist credit system and the state central bank; and (3) international capital mobility, national states and the structural power of capital. These theoretical foundations will then form the basis of the historical account of the evolution of US hegemony outlined in sections 6–11.

3 Capital, the state and struggles for hegemony

The perspective outlined here begins with the idea that while capital and the state operate on the basis of distinct institutional forms, operational logics and modes of calculation, the state in a capitalist society is nevertheless conditioned, as a matter of course, by both the direct and structural power of capital. In a capitalist society, the most rudimentary social content of ‘the economic’ is a system in which human beings enter into definite relations with one another in order to produce and reproduce themselves and their material conditions of existence by exploiting nature through the production and exchange of commodities. This social relation, whereby relations between human beings come to be mediated by relations between commodities, is what Marxists call ‘value’ (Saad-Filho 2003). From the perspective of value, commodities must be produced and subsequently consumed. In order to be produced, a commodity must have an exchange value—i.e., be exchangeable for other commodities in definite ratios—whereas in order to be consumed, it must have a use value—i.e., some material and socio-symbolic significance for its purchaser.

The hallmark of capitalist society is that the value form assumes a specific social content in which commodity value is, on the one hand, produced by a plurality of formally autonomous firms whose *modus operandi* is to generate profit, and on the other hand, realized in a market system dominated by the imperatives of competitive capital accumulation. Profit-oriented capitalist firms utilize forces of production, including tools and machinery that are privately sourced in the market for means of production, to act upon and transform nature. Furthermore, they entail social relations of production whereby workers sell their capacity to labour to capitalists in exchange for a wage. In this regard, the exercise of labour power is a

necessary condition for the production of commodities, and Marxists emphasize the process by which capitalists as a class exploit workers by appropriating surplus labour from them in the form of surplus value (Marx 1990; see also Wolff and Resnick 1987; Saad-Filho 2003; Harvey 2006, 2010). Class exploitation is only possible because, in capitalist society, not only are means of production and products of labour bought and sold as commodities, but human labour power itself, in the guise of specific skills, knowledge and creativity, assumes the form of a commodity within a generalized market for wage labour.

However, while labour is commodified in capitalist society, this doesn't mean that it really *is* a commodity. On the contrary, despite the fact that labour power has an exchange value—the wage—and a use value on the basis of which it is bought and sold—its capacity to realize surplus value for capital through the production of other use values—it is nevertheless neither produced for exchange nor consumed by its purchaser. There are no 'labour factories' churning out workers for profit and on the basis of demand. Rather, the market for wage labour forms part of a wider system of provision in which labour power is produced by households independently of capitalist commodity production before being brought to market. Likewise, workers are hired in order to produce other commodities which are then sold. Consequently, labour power is more accurately described as a 'fictitious commodity' (Polanyi 2001: Ch. 6; Keen 2011: Ch. 6; see also Jessop 2002: 13–15). This also serves to highlight the more general point that capital has extra-economic conditions of existence.

The question then naturally arises: if labour power is not really a commodity, then how did it come to be subsumed under the value form? Marxists answer that the existence of a generalized market for wage labour presupposes vast structured inequalities resulting from an historical process of 'primitive accumulation' whereby workers were forcibly separated from their means of production. Possessing no property of their own, the propertylessness of wage labourers compels them to enter the labour market and sell their capacity to work to capital in exchange for a wage. If workers owned their own means of production, then they would not be socially dependent on the market in order to secure their material conditions of existence (Perelman 2000; Wood 2002).

The means of production in capitalist society, viewed from this perspective, constitute not only a material condensation of subject-object relations between owners and their property, but more fundamentally a social relation between property owners and all those excluded

from access to property. In practice, this means that the performance of labour, levels of output and employment under capitalism come to be socially regulated by the process of profit-oriented production and competitive accumulation. Labour power and means of production will only be purchased in the market if they can be profitably put to work. If not, then the former will become socially marginalized as it is expelled into the reserve army of labour, while the latter will simultaneously begin a new existence as excess capacity. However, even when labour can be profitably utilized in production, capitalist society nevertheless still continues to produce its own relative surplus population as the organic composition of capital in particular industries rises as a consequence of the introduction of labour-saving technology.

These details underscore the key point that capitalist society is premised on a fundamental inequality between capital and labour. This inequality has the potential to generate profound social antagonism in the form of politically-relevant class struggle. Capital aims at appropriating surplus value by augmenting the exercise of labour power in production during the course of the working day and by lowering the monetary price of labour power. The extent to which the form, duration and intensity of labour come to be determined by the contradictory imperatives of competitive accumulation depend on the disciplinary power exercised by capitalists over workers within the organizational process of producing and realizing commodity values. In this respect, the tension and antagonism internalized within the capital relation is the motor of the production of surplus value, and capitalist discipline must be routinely re-imposed over workers if accumulation is to be regularized and rendered amenable to bourgeois forms of economic calculation. Whether this tension and antagonism will remain confined within the social form of capital or push against and beyond it, however, depends crucially on workers' perceptions of the fundamentally unequal nature of the wage bargain, as these are mediated both materially and discursively. State institutions, as we shall see, play a crucial role in this process of mediation.

A capitalist society generally requires a strong state in order for the fundamental social relations of capitalist society to be reproduced on an ever-expanding scale. This is because if capital is subject to self-regulation, then the social antagonisms and contradictions which comprise it will invariably generate profound instability and crises. Consequently, the 'free economy' and the 'strong state' come to be increasingly closely intertwined in a capitalist society within a tense and potentially contradictory unity of opposites (Gamble 1994). This

relationship unfolds through a historical dialectic of social struggles, institutions, structural contradictions, strategic dilemmas and responses in which successive economic crises create a precedent for the exercise of state power in order to re-establish the social and economic conditions of continued accumulation that are a prerequisite for the material reproduction of both capital and the state alike. For our purposes, crises can be understood as entailing the maturation of structural conditions which

tend to arise under at least three different types of condition: first, when the overall logic of an institutional ensemble generates opposed developmental tendencies (for example, the growing socialization of productive forces versus continuing private control over the relations of production and surplus appropriation); second, when there is a conflict or tension between the requirements of system reproduction and the logic of individual action (for example, capital-in-general versus particular capitals); and, third, when a social relation is so constituted that it tends to produce socially structured conflicts between inherently antagonistic interests (for example, capital versus labour) (Jessop 2002: 277–8).

In their attempts to navigate these contradictions, state actors face strategic dilemmas ‘such that, within given parameters and horizons of action, any action that they pursue (including inaction) will undermine some key condition(s) of their existence and/or their capacities to realize a broader set of interests’ (Ibid.: 278). Furthermore, the choices they make and the solutions they advocate are always based on discursively constructed notions of the most pressing and immediate social and political problems that need to be addressed (Foucault 1997: 118–19). Essential to this notion is a trial and error process of experimentation and learning which may call into question existing state institutions and rationalities of government.

Crises are ... *displaced* from the economy (which does *not* have the internal capacity to resolve them) to the state (which *may*, or *may not*). If the state as currently constituted cannot resolve ... a crisis, then in the first instance it is the particular form of the capitalist state that is called into question, not the very stability of the capitalist mode of production itself (Hay 2006: 64).

Consequently, as Jessop (2008a: 7) points out, ‘a crisis in the political system leads normally not to its demise but to its reorganization’. More generally, this implies a view of the state as being fundamentally a historical product, one that is the product of past and current strategies

adopted towards state institutions by relevant actors in response to the strategic dilemmas raised by crises.

In terms of the various forms taken by these responses, the state has sought to regularize and normalize capital accumulation through initiatives which (1) institutionalize juridical rules of commodity ownership and exchange and facilitate neutral arbitration of trade disputes and others infringements of those rules; (2) supplement the reproduction of capitalists and workers through the provision of social security, health, education, transport and communications infrastructures, and other so-called ‘merit goods’ that will tend to be undersupplied by profit-oriented producers engaged in market-mediated competitive accumulation and which give the state a means of regulating the price and rate of utilization of capital and labour-power in the economy as a whole through its control over a ‘public sector’; (3) rationalize market forces by, for instance, ameliorating the causes and effects of class struggles between capitalists and workers via the maintenance of neo-corporatist mechanisms of interest intermediation; (4) ratifying anti-trust legislation to enhance competition among producers and reduce barriers to market entry and exit (or, alternatively, by subsidizing the profits of private producers through the granting of legal status to patents and intellectual property rights which establish temporary monopolies), regulating the supply of unwanted pollution produced as the by-product of industrial processes (perhaps by attempting to internalize these ‘negative externalities’ within the market via the process of commodification), or through the construction of regulatory institutions, such as the central bank, which plays a key role in instituting a formally rational monetary system and maintaining the stability of commodity prices so as to render markets amenable to economizing forms of calculation. These different functions have more generally led to a role for the state as an economic owner, owner-producer, employer, regulator, redistributor, and policy-maker (Pierson 2004: 80–97).

The decision-making process which generates state responses to the structural contradictions of capital varies depending on the form of the state. For our purposes, state decision-making can be understood in broadly liberal-democratic terms as entailing a formally rational bureaucracy, political equality and popular rule as the basis of state institutions. The liberal-democratic discourse of citizenship plays a vital role here in naturalizing relations between capitalists and workers by representing them as uniform relations between individuals who are free and equal members of an overarching political community or commonwealth. In the

context of a capitalist society, this results in a permanent tension between, on the one hand, the capital relation—with all of its inherent social tensions, antagonisms and contradictions—and on the other hand, its liberal democratic shell. Put in class terms, the difference between the economics of inequality and the politics of equality that is constitutive of liberal-democratic capitalism implies, firstly, that the property-owning minority willingly accepts the political rule of the propertyless majority instead of seeking to re-establish its earlier monopoly of political power, and secondly, that the propertyless minority willingly accepts the economic rule of the propertied minority as the price of political emancipation instead of pressing for the overthrow of capitalist society (Jessop 2008b: 417–18). The historically contingent and doubly ambivalent nature of the social basis of liberal democratic capitalism implies that if the state is to have any essential class unity at all, then it cannot be as the simple instrument of either bourgeoisie or proletariat. Instead, the exercise of state power must be the complex result of ‘the changing balance of forces in political and politically-relevant struggle’ (Ibid.: 428) as this is conditioned by the nature of class inequality in a capitalist society.

Political struggle in liberal-democratic capitalist societies occurs through the dull routines of democratic politics, which encompasses the attempt to define and enforce collectively-binding decisions on an imaginary political community in the name of an equally imaginary general interest (Jessop 1990: Ch. 6, 7; see also Jessop 2002: 40; Gramsci 1971). A necessary dimension of this process involves a concern with securing ‘the social conditions in which market forces can operate to maximize capital accumulation in the long-term’ (Jessop 1990: 185). Since these conditions cannot be secured by simply aggregating together the myriad separate economic interests of different social forces, politics in capitalist liberal democracies takes the form of struggles for hegemony in which leading political forces attempt to fuse together and symbolically condense the disparate demands, interests and identities of dominant and subordinate classes alike within an overarching organic unity or collective will. Hegemonic struggles to forge a general will or ‘national interest’ then constitute an attempt to resolve capital’s ‘collective action problem’ by mediating between the systemic requirements of reproducing capital accumulation and the particular interests of social groups. This necessary mediating role of political struggle implies that the institutional structures of the state do not determine anything independently of the strategies pursued by actors, which ‘impart some substantive coherence to what otherwise remain formal unities’ (Ibid.: 196).

The reproduction requirements of the capitalist market economy overdetermine the exercise of state power as this is refracted through struggles for hegemony. In this respect, the state constitutes a strategically selective terrain in the sense that, regardless of their particular strategic objectives, political parties and state managers will generally be obliged to consider the ramifications of their actions on variables such as government income and expenditure, capitalist profitability, gross domestic product, interest rates and the availability of credit, the stability of commodity prices, the rate of utilization of labour power and fixed capital, the balance between absolute and relative surplus value, the degree of concentration and centralization of capital, etc. The result is what Jessop calls a 'form-determined bias' or 'structure of unequal representation', which renders state institutions generally more open to capitalist forms of influence. Consequently, they are more likely to be mobilized in support of capitalist interests than those of other social forces (Jessop 1990). To give a pertinent example, the attempts by state managers to derive popular legitimacy by managing key institutional parameters of economic activity invariably lead to the political empowerment of a tiny minority of 'experts' who specialize in the production and circulation of distinctly 'economic' forms of knowledge. In this respect, the flipside of majority rule in a capitalist society is political, intellectual and moral leadership exercised by a minority cadre of economic technicians whose principal goal is the scientific management of economic activity.

Some of these dimensions of the relationship between capital and the state (as well as others which will be discussed in subsequent sections) can be usefully categorized in terms of Gill and Law's (1988: Ch. 7) analytical distinction between the 'direct' and 'structural' power of capital in a capitalist society. The direct power of capital concerns the capability of particular capitals to enforce their own interests on other actors independently of their will (see also Dahl 1957: 202–3). Sources of direct power in capitalist society include the market power exercised by firms by virtue of oligopolistic pricing, the capacity to hire lobbyists and fund political organizations enabled by money power, and the privileged consultative position of business groups within state institutions concerned to promote the conditions of capital accumulation (which can extend to parcelling out political and regulatory authority to businesses and business organizations themselves). Multinational companies also exercise authority through their decisions regarding the allocation of resources between countries, and may lobby both their parent and host governments, as well as international organizations, in order to obtain favourable policies. Additionally, the direct power of capital operates through the mobilization of biases engendered in ideological and institutional norms (see also

Bachrach and Baratz 1962), such as those related to the shared social backgrounds and worldviews of capitalists, state managers, and cadre in international organizations. These norms function, for example, to naturalize property rights and the power relations stemming from them by making it appear as if they are right and inevitable (Gill and Law 1988: 84–6, 90–2).

The structural power of capital goes beyond the conflicting interests of individuals and groups within a pluralist political system to encompass how capitalist social relations distort human wants and desires, shape the preferences of subordinate classes, and prevent them from formulating a clear conception of their own interests (see also Lukes 2005; Digeser 1992). One dimension of structural power—and an essential aspect of the power of capital-in-general—relates to the ‘abstract domination’ which prevails when objects are ‘pulled’ from their essential social and material context and emptied of the content that derives from it. Marx identifies the principal form of this domination in capitalist society in his analysis of the externalization and estrangement of human beings from the products of their labour, conscious life-activity, one another and species-being entailed by commodity fetishism: the real abstraction in and through which the capacity of capital to generate social wealth is naturalized as the inevitable consequence of producing and exchanging commodities, independently of the social relations between persons which generate it. This analysis led Marx to accuse the classical political economists of his own time of systematizing a basic distortion of reality which resulted in ‘the conversion of social relations into things’ (Marx 1990: 830). Commodity fetishism, as Taussig (1980: 31) underlines, not only entails ‘the attribution of life, autonomy, power, and even dominance to otherwise inanimate objects’; it also presupposes ‘the draining of these qualities from the human actors who bestow the attribution’. These unwelcome consequences of fetishism—the subjectification of objects and the objectification of human beings, respectively—naturalize structures of human domination by making it appear as if abstractions, in and of themselves, are capable of exercising power over us.

However, Gill and Law focus on other dimensions of the structural power of capital. In this respect, they draw attention to perceptions among state managers regarding the essential determination of economic growth by virtue of private sector enterprise and innovation, as well as the seeming necessity for state institutions to promote an adequate ‘business climate’, both domestically and internationally—i.e., relative to the business climate prevailing in other

countries regarding variables such as ‘legal freedoms (for example to remit profits), production costs, labour relations, political stability and financial concessions offered, of many different countries’ (Gill and Law 1988: 92). If an adequate business climate is not maintained, then the power of markets is such that capital will either engage in an ‘investment strike’—a quasi-spontaneous form of collective action coordinated primarily through the impersonal operation of the market mechanism, or seek to withdraw invested funds from the financial markets of the country in question (including the market for government securities). As Gill and Law (Ibid.: 87) point out, whereas a

general strike [by labour] would probably be perceived as a direct and conscious threat to the state itself ... an investment strike would have an almost natural quality, and would be based upon one of the very principles that the capitalist state is committed to uphold: the right of individuals to dispose of their property as they see fit.

Likewise, whereas an investment strike usually occurs only gradually, financial capital has the potential to discipline state managers through the withdrawal of financing for government expenditure. This can generate ‘a balance of payments crisis under fixed exchange rates, or a foreign exchange crisis (fall in the exchange rate) under floating exchange rates. A falling exchange rate brings with it increased risks of rising inflation, especially for a small, open economy’ (Ibid.: 93). Furthermore, multinational companies can exploit wage differentials between countries and the ‘reserve army of the unemployed’ which exists in and around the frontier zones of the capitalist world-economy. They may also be more inclined to support national economic policies entailing monetary and fiscal discipline.

Transnational capital is not entirely dependent on the business climate of one country, in the way a purely national firm obviously is. When a recession in one country occurs, it will be easier for transnational corporations to survive, than it is for national firms. Indeed, the process of restructuring, whereby weak firms are either made bankrupt, or else taken over by the stronger survivors, is likely to work systematically to the advantage of transnational capital, particularly in the manufacturing sector (Ibid.: 94).

This aspect of the structural power of capital is particularly relevant to an explanation of the willingness of the US Federal Reserve to embark on a radical monetarist economic policy experiment in the United States during the late 1970s and early 1980s. However, Gill and Law also point to the significance of full employment policies in tilting the balance of

structural power away from capital and towards labour in the market for labour power. In short, when employment opportunities are readily available and workers no longer fear the sack, their willingness to submit to capitalist discipline and control over the production process decreases exponentially. In this respect, businesses during the 1970s were increasingly becoming aware of the problems for capital accumulation entailed by full employment policies, as well as their class interest in disciplining labour as a social condition for profit-making in the long-term (Ibid.: 88).

4 Money, the capitalist credit system and the state central bank

Understandings of money and finance in theories of politics and international relations tend to draw upon neoclassical economics. The result is that the concept of money in particular is desocialized and reconfigured as a purely ‘economic’ entity. According to the theory of money advocated by neoclassical economists, money emerges as the outcome of a rational selection process in which free and egoistic individuals with an innate propensity to ‘truck, barter, and exchange one thing for another’ nominate the most ‘marketable’ commodity offered for sale as money. The purpose of this selection process, so the tale goes, is to overcome the limitations which are imposed upon market exchange by the nature of the barter economy. In this form of economy, individuals can only transact on the condition that each party to a potential exchange has what the other wants. This condition, usually termed the ‘double coincidence of wants’, imposes transaction costs which limit the extent of market exchange. Money overcomes the limitations of the barter economy by performing useful functions, the first and foremost among which is to act as a medium of exchange. Other functions, such as serving as a store of value, means of payment and measure of value/abstract unit of account are deemed to be of secondary importance. A particular commodity is more likely to be selected as money if it possesses specific physical properties, such as divisibility, durability and portability, and if it is in high demand and short supply. Once a commodity becomes money, it is likely to be retained through a combination of ‘network effects’ and economic inertia. Network effects are a type of positive externality which occurs when the marginal utility of holding a particular commodity increases with each additional individual that is added to its network of users. Money is therefore the most liquid—i.e., exchangeable—commodity because it is perceived as being such by market

participants who wish to lubricate exchanges among themselves (see, for example, Samuelson and Nordhaus 2009).

The ultimate logical conclusion of this argument is that money is a commodity like any other, albeit one with highly specific properties. However, far from specifying the differences between monetary and barter forms of economy, this conclusion collapses the former into the latter. Consequently, the monetary economy does not represent a rational solution to the problem of barter, but rather the most developed form of the barter economy (Smithin 2003; Ingham 2004; Mellor 2010). From a Marxist perspective, the neoclassical theory constitutes more than simply a failed attempt to resolve the riddle of money, since it fundamentally overlooks the most pressing issue to be dealt with, which is, above all else, social in nature. This is because money is not itself a commodity, but rather a social relation in which one party acquires the power to immediately purchase and own commodities that are offered for sale in the market (Lapavistas 2003: 61). Viewed from this angle, money is a material condensation of the power to purchase which emerges as the outcome of a social process whereby commodity owners make offers of sale to holders of money, not because they wish to consume its use value, but because it can buy commodities (Ibid.: 63).

In a capitalist society in which goods, services and labour power are commodified and thus routinely sold in the market, money internalizes the fundamental social relations between rulers and ruled insofar as the accumulation of capital in the form of ‘more money’ accords capitalists the economic and social power to ‘mobilise resources, obtain commodities, secure promises and postpone demands on them in ways not available to plain commodity owners’, while workers’ ‘lack of money translates into powerlessness, deprivation and exclusion’ (Ibid.: 64). Furthermore, this market power can also be mobilized by particular capitals in order to improve their competitive position vis-à-vis other firms. It therefore cannot be concluded that the act of offering commodities for sale in exchange for money constitutes an equal exchange of equivalents, given that the latter is able to function as the ‘prime instrument for imposing one’s will on others, and establishing social hierarchy and rank’ (Ibid.) in a way that the former cannot. Ultimately, then, money distinguishes itself, not as a neutral economic instrument or technology, but as an elementary form of sovereignty and state power, one that, in capitalist society, has its origin in the process by which capital is accumulated through the production and exchange of commodities in the marketplace.

When money capital is mobilized as bank credit in the market, the advancement and repayment of loans becomes a necessary practice facilitating investment in production and a new weapon in capitalist competition. Banking's pre-capitalist origins date back to the mercantile exchanges of sixteenth century Genoa and Amsterdam, where merchants issued and traded bills of exchange—a form of transnational private credit money—to finance long-distance trade, as well as promissory notes backed by the personal creditworthiness of the issuers. These exchange relations subsequently became increasingly formalized and institutionalized as the first clearing banks emerged and the burden of trust shifted away from asset holders and onto reputable third parties (Mellor 2010: 31). As Ingham (2004: 115) points out, 'The issue of credit-money, in the form of notes and bills, requires the depersonalization of debt, which enables the transferability of promises to pay. These can then circulate outside the network of any particular bank and its depositors'. Under these transformed conditions, the banks sought to generate trust by assessing the creditworthiness of potential borrowers on the basis of procedural norms, as well as by holding reserves of precious metal as means of payment which could be used to settle accounts with other banks and to hedge against the possibility that some borrowers renege on their financial obligations. Viewed from this perspective, Harvey's (2006: 246) claim that credit money 'is privately created money which can serve a social purpose when put into circulation' is compelling.

This privately created money is endogenously tied to the process of capital accumulation, and in particular to capital's tendency to become increasingly concentrated and centralized in ever-fewer and larger organizational units. As Foster (2009: 60) puts the point:

Capital, by its very nature, is self-expanding value. The individual capitalist experiences the compulsion to enlarge "his" capital as both an objective and a subjective necessity. In the cutthroat world of the capitalist order, both survival and success are largely a function of the rate of accumulation of individual capitals. Moreover, the logic of this process is synonymous with the monopolization of productive resources by an ever diminishing number of capitalists. Capital accumulation presupposes both a growth in the size of individual capitals (concentration) and the fusion together of many capitals into "a huge mass in a single hand" (centralization). The latter process occurs primarily through economies of scale in production and the growth of the credit system (including so-called primary securities or share capital). The competitive struggle therefore results in the destruction of many small capitals and their centralization into a few giant capitalist concerns controlled by a small number of corporate owners and managers.

Concentration and centralization of capital inaugurates a shift in the structure of markets away from liberal market discipline and towards monopolistic competition (e.g., horizontal and vertical integration of supply chains within particular industries and conglomeration across sectors), or what Harvey (2006: 137–41) appropriately refers to as an extension of capital's dictatorship over production at the expense of the anarchy of market forces. This shift, however, takes place within the overall dynamism of the circuit of capital, which continues to internalize moments of fixity and motion, concentration and dispersal, mobility and immobility, as well as varying degrees of tension, antagonism and contradiction between and within its constitutive elements. Thus, for example, at the same time as it concentrates and centralizes capital, the banking system may intensify competition through its provision of loan capital, thereby strengthening the tendency towards equalization of profit rates and the drive for new technology.

The principal organizational expression of the concentration and centralization of capital is the joint-stock capitalist firm. The most notable characteristics of the latter include, on the one hand, a multidivisional administrative structure combining decentralized production and distribution activities with centralized planning of investment, and on the other hand, an impersonal structure of ownership and control of capital by a constellation of economic interests with varying potentials and mechanisms for influencing firm decision-making (Scott 1997: 57–78). As a concentrated and centralized form of capitalist organization, the joint stock company circulates both money and commodities as capital. Consequently, there is always a possibility that profits retained in the form of money will be circulated as interest-bearing capital either within or outside the circuit of productive capital. However, it is precisely because capital amalgamates itself into ever larger and fewer units that it becomes necessary for ever larger amounts of money to be mobilized as capital via the credit system in order to fund, for example, expensive purchases of real estate, fixed capital or infrastructural investments. In this respect, the supply of credit is limited only by firms' demands for loans which satisfy existing standards of 'creditworthiness'. Likewise, the placement of share capital through the institutional mediation of the stock exchange system enables capital that has been rendered immobile in production to nevertheless continue to circulate in the form of interest-bearing paper symbols—a process that renders giant manufacturing enterprises simultaneously both 'industrial' and 'financial' concerns and brings them into organizational alignment and cooperation with banking capital (Henwood 1997; Scott 1997). This dual nature of capital accumulation within the structure of finance capital, which consists of both

ownership of real assets and paper claims to them, can encourage capitalists to divert funds away from production in order to speculate on price fluctuations in markets (Harvey 2006: 286).

While the credit system ultimately entails social relations of credit and debt whose substantial nature is established independently of the production and exchange of commodities, it is nevertheless only the systematic appropriation of surplus value in production on an ever-expanding scale and the money profit thereby obtained which enables the systematic repayment of interest and reproduction of a comprehensive system of credit provision (Lapavistas 2003: 70). If a crisis in the sphere of production, for whatever reason, negatively impacts on profitability, then the result will be a financial squeeze on profits or even bankruptcy if firms can no longer meet their financial obligations. More specifically, financial domination of this kind can lead firms to prioritize short- over long-term planning horizons and divert profits away from investment in new plant and equipment and into loan repayments and/or financial speculation. It also increases the structural power of capital vis-à-vis labour, as firms are forced to seek to contain costs by engaging in a comprehensive process of layoffs and cuts to wages and benefits, while workers are required to procure credit money in order to offset their stagnating real incomes and secure their material conditions of existence. In this sense, the flipside of workers' increasing immiseration is an ever-greater concentration of wealth in the hands of financial institutions. During such moments, financial obligations function as a form of market discipline over industrial capitalists, as well as workers and other debtors, who must do what they can in order to satisfy the demands placed upon them by their creditors.

The credit system emerges as an object of state regulation as a result of the structural contradictions generated by speculative manias and panics, as well as the production of credit itself. Speculation can occur in either primary or secondary markets. For example, rising prices in secondary financial markets can turn into speculative bubbles when investors cease to define their interests with reference to calculations regarding the underlying uncertainty of the asset they are holding, aiming rather to sell it on at a higher price in the rising market. When the market stops rising, a panic ensues as the supply of assets increases and demand dwindles—a situation which is especially problematic for traders who have entered the market with borrowed money. The logic of speculative financial activity thus generates a structural contradiction marked by coordination problems related to the disconnection

between, on the one hand, the rational risk-taking behaviour of investors, and on the other hand, the collectively irrational ‘systemic risk’ to which it gives rise—which can threaten the reproduction of the system as a whole.

The institutions of the banking system, however, are so organized as to enable the systematic production of new credit money, and therefore incarnate a distinctive form of structural power that is not available to individuals. The late nineteenth century US populist presidential candidate William Jennings Bryan once decried the fact that ‘if you want more wheat you can go out and raise wheat ... but if the people want more money they cannot bring money into existence’ (quoted in Ingham 2004: 8). However, this is precisely what a mature capitalist credit system will do if its dynamic is not constrained by an external authority. More specifically, the structure of the banking system as a whole in a monetary economy where capitalist credit money is freely transferable serves to constantly increase the supply of money at a rate in excess of the cash reserves held by banks as deposits. The mechanism through which this occurs is the process of lending itself. Banks not only lend out more notes than they receive in the form of deposits, but also actively create new deposits in the process of making new loans. This is because bank loans ‘create deposits [*liabilities*] against which cheques may be drawn and are debts owed to the bank (*assets*). These debts become money and find their way, as deposits, into other banks in the system [i.e., as *new liabilities*]’ (Ingham 2004: 139). In other words, what occurs in the banking system is not the transfer of purchasing power away from savers and towards borrowers—as the idea of banking as ‘financial intermediation’ would have it—but rather the active creation of new credit money and thus effective demand through the process of lending itself. This mechanism has the potential to generate serious financial instability, since banks are capitalist enterprises which have a constant incentive to increase their ratio of loans to reserves so as to attempt to augment their profits and overcome competition.

This structural power is both maintained and limited by state institutions and their policy-making and regulatory capacities. In particular, control over the issue of state fiat money, as well as a variable degree of control over capitalist credit money, is concentrated in the state central bank. The latter’s monetary policy can influence the supply of, and demand for, money in the banking system. For example, the central bank can issue new securities. When the government’s account at the central bank is credited, the central bank accepts a government security as a promise to repay the loan. On the one hand, when the state pays its

creditors or suppliers with cheques drawn on this account, the level of commercial bank reserves held at the central bank increases. On the other hand, when citizens pay their taxes with cheques drawn on commercial bank accounts, the amount of commercial bank reserves held at the central bank falls while the government's account is credited. In this way, levels of public expenditure and taxation are causally associated with the capacity of commercial banks to issue new money as debt. (Ingham 2004: 141; Lavoie 2009: 61–63).

In addition to issuing new government securities, the state may also instruct its central bank to buy and sell existing securities—a practice known in the United States as ‘open market operations’. Buying securities increases commercial banks’ reserves, while selling them decreases the amount of reserves. Taken together, new issues of government debt and the buying and selling of existing government securities enable states to influence the amount of credit money created by commercial banks in the credit system. States can also influence the demand for credit money by adjusting the interest rate at which commercial banks lend and borrow central bank reserves amongst themselves, as well as by refusing to convert private bank notes into high powered central bank money (although in practice the central bank is generally willing to supply high powered money to commercial banks on demand through its discount window) (Lavoie 2009: 60–6). The central bank therefore attempts to manage the collective interests of capital in general, even if its policy decisions inevitably damage the economic interests of particular (financial) capitals.

The relationship between capitalist credit money and state fiat money is highly complex in a capitalist society. Fiat money is a form of money that achieves value through authority. Consequently, while it may take the specific form of metallic coinage, fiat money is at best a symbol of commodity money. The supply of fiat money is determined by the state itself, which issues its own money and derives a seigniorage benefit from the monetary difference between the face value of notes and coins and the market price of the materials from which they are made (Mellor 2010: 17). The demand for fiat money is also determined by the state, which nominates in law which ‘things’ it will accept in fulfilment of citizens’ tax obligations and sets overall levels of taxation (Ingham 2004: 47–9). Historically, this institutional arrangement has its origin in the social and political process that ‘transformed the sovereign’s *personal* debt into a *public* debt and, eventually in turn, into a *public* currency’ (Ibid.: 128). It allows the state to exert influence over the banking and financial system through its institutional mediation of the most sought after promise to pay—i.e., that of the state to its

creditors (Ibid.: 130). As should be clear from the discussion so far, the level of public debt, which corresponds to the note issues of the central bank, commands a greater sense of trust than other forms of credit money in the credit system because, as a result of its power of seigniorage, a money-issuing state will in principle always be able to monetize its debt and satisfy the demands of its creditors. This power, in turn, is dependent in the last instance on the state's capacity to tax its citizens through the construction of a vast administrative bureaucracy, although it may be buttressed by the central bank's promise to convert its note issues into forms of commodity money, such as gold, at a fixed rate (Ingham 2004: 131; see also Harvey 2006: 248).

5 International capital mobility, national states and the structural power of capital

The historical evolution of capitalist society is animated by a fundamental contradiction between, on the one hand, the deterritorializing tendencies engendered by the 'transnational' spatial expansion of capitalist social relations across the globe, and on the other hand, the reterritorializing agency of a state form whose principal function is the occupation and defence of exclusive 'national' space (for a survey of Marxist views, see Anievas 2010). In mainstream realist theories of international relations in the interstate system, politics is understood as being formally differentiated into separate domestic and international spheres distinguished from one another by their respective logics of 'internal political hierarchy' and 'external geopolitical anarchy' (Teschke 2003: 3; see also Waltz 1979). On the one hand, domestic politics is regarded as being coextensive with the territorialized political authority of the sovereign state, which functions, firstly, as 'a public power responsible for the governance of a tightly delimited geographical territory', and secondly, stands above the society in whose name it claims to govern (Hay and Lister 2006: 5). On the other hand, international politics is characterized by the logic of anarchy. This logic is one where, in the absence of an overriding political authority, international cooperation among states is fundamentally limited by the pursuit of differing national interests. In this context, states can, at best, act to ensure their own survival within the structure of opportunities and constraints set by the international system by engaging in a complex process of power-balancing in response to the behaviour of other states (Dunne and Schmidt 2005; Rosenberg 1994: 9–10).

The realist account of the separation between domestic and international politics has deep roots in liberal political thought, where it is associated in particular with the social contract theory of Hobbes (1968). According to Hobbes, political community can be viewed as the outcome of a 'social contract' convened by rational individuals, who agree to transcend the 'continual fear, and danger of violent death' characteristic of a pre-social 'state of nature' by authorizing a public power to rule over them. Realism retains the essentials of this theory inasmuch as (1) domestic relations between states and societies are understood in terms of the rule of a public power over private interests; and (2) international relations between states are modelled analogously to relations between individuals in the state of nature (Agnew 2005: 47). In both cases, the embedding of the state within society is denied and the social content of domestic and international political forms remains unexamined. This ultimately results in, on the one hand, a 'thing-like' conception of the state as a unified subject that is itself capable of acting upon human beings, as opposed to a social relation between subjects mediated by state capacities, and on the other hand, a structuralist 'billiard ball' model of international relations in which the identities and interests of subjects have no determining effect on the constitution of the international system.

While realism should be rejected on these grounds, the line of difference between 'domestic' and 'international' politics, although subject to a long historical process of material and discursive construction and institutionalization, nevertheless generates real effects. Most importantly, as Jessop (1990: 179; see also Gill and Law 1988: 89–95) points out, it entails that

many important factors determining domestic economic performance lie outside the control of the individual nation-state and must be taken as basic parameters of economic intervention and social welfare policies. This is reflected above all in the need for governments to maintain international and domestic confidence in the business environment and the prospects for profitable investment.

If they do not, then a number of negative consequences can follow. In this respect, international capital mobility intensifies the effects of the structural constraints placed upon states by their institutional separation from the economy from the 'outside-in'.

The financial balance of a particular country corresponds to its ratio of international commodity purchases (imports) and sales (exports). On the one hand, if a country's sales

exceed its purchases, then it will have a payments surplus on its current account. On the other hand, if a country's purchases exceed its sales, then the result will be a payments deficit on its current account. In the absence of regulatory arrangements which confer rights and obligations on both parties, the onus of adjustment is placed squarely on the deficit country. The state in question is then faced with the problem of securing an adequate quantity of money that is accepted as international means of payment in order to finance its current account deficit (Gowan 1999: 15–16). If the state does not wish to default on its obligations, then it may choose to finance the deficit in the short term by drawing on a national hoard of internationally accepted reserve assets. A second available option is to cut public expenditure and increase the level of taxation levied upon its citizens. Thirdly, it may seek to encourage flows of foreign portfolio or direct investment to enter its capital markets, or seek out bank credit to fill the gap (Lapavitsas et al. 2012: 85). Alternatively, it could seek public credit by borrowing from a state operating a budget surplus or a specialized international organization, such as the International Monetary Fund (IMF). Lastly, and most obviously, it could seek to increase its production of export commodities and/or reduce its consumption of import commodities.

This last option, if it can be achieved without provoking retaliation from other countries in the form of punitive trade and investment sanctions, undoubtedly appears to the state in question, as well as to the class of money capitalists who constitute its creditors, as the most sustainable course of action. At least this would be the case if it were not for the logical requirement that the sum total of international sales and purchases must balance. Insofar as the system as a whole cannot reproduce itself through offers of sale alone, this requirement necessarily entails that only some debtor states will be able to resolve balance of payments crises in this manner in circumstances where all debtor states attempt to do so simultaneously. Those states which cannot hope to compete in order to improve their overall terms of trade along these lines may then find that their attempts at debt reduction actually result in the accumulation of additional debt. As Patomäki (2012: 22) explains, ‘if sufficiently many states simultaneously attempt to cut their public spending levels in order to pay off debt, aggregate global demand will inevitably wane. Similarly, if several countries simultaneously try to improve their competitiveness by taking measures to keep wages low—that is, through internal devaluation—each of these countries’ levels of exports to each other will be likely to deteriorate. And as export levels drop, the economies of the countries inevitably suffer and public spending may in fact increase, also in proportion to income’.

Consequently, the very process by which national states attempt to resolve crises on the basis of their characteristic mode of political calculation can give rise to a structural contradiction at the level of the world market as a whole which has the propensity to generate further instability and crises.

The attempt of states to manage the flow of money and commodities across national borders has received different organizational and institutional expressions. In this respect, states have historically sought to construct international monetary and financial regimes characterized by differing degrees of international capital mobility, fluctuations in the rates of exchange at which different national currencies can be traded, and capacities of national central banks to influence levels of domestic economic activity by adjusting the rate of interest demanded on capitalist credit money without reference to rates of interest prevailing in other countries. For example, the Bretton Woods international monetary and financial regime which emerged in the aftermath of the Second World War was intended to combine restrictions on the international movement of capital with a system of relatively stable exchange rates and relatively independent national monetary policies. This economic policy mix is consistent with the so-called 'Mundell-Fleming' model, which stipulates that only any two of the following three policy options are compatible with sustained economic stability: (1) international capital mobility; (2) a fixed exchange rate; and (3) an independent monetary policy (O'Brien and Williams 2010: 221–2). From the perspective of this theoretical model, the Bretton Woods system was able to function because the condition of operating a stable exchange rate alongside an independent monetary policy was a significant reduction in international capital mobility. This is because controls on the free movement of capital both prevent owners of money capital from buying and selling national currencies in response to fluctuations in national interest and exchange rates at home and abroad, and restrict the circulation of national currency outside of its country of origin. If states agreed to adopt an alternative policy mix in which capital was granted a greater degree of mobility across national borders, then they would be required either to marshal interest rates in defence of the stability of their exchange rates or allow these rates to float so as to enable monetary policy to respond more freely to domestic economic priorities. In practice, however, states are concerned to manage all three variables, since any possible combination of the three will bring both benefits and drawbacks.

Any given set of institutionalized international monetary and financial arrangements is likely to eventually come into conflict with the factors generating dynamism and uneven development in capitalist society. In this respect, all manner of economic transformations may generate shifts in the terms of trade between countries, thereby unsettling the political bases of established patterns of competition and collusion, and provoking attempts to break with old institutional arrangements—which come to be perceived as barriers to continued accumulation. To give a prominent example, under conditions of fixed exchange rates and international capital mobility, an improvement in the international competitiveness of a country's commodities will not be accompanied by a concomitant appreciation in the price of its national currency. This enables the country in question to accrue an additional competitive advantage as a result of the relative underpricing of the national currency in which its commodity exports are denominated, one corresponding to the relative overpricing of the currencies of its foreign rivals. The latter countries therefore face a strategic dilemma in which the cost of maintaining fixed exchange rates has a depressing effect on their national economies. This situation also has the potential to result in foreign exchange crises by generating an expectation among nervous investors of a looming conversion to anti-cyclical monetary policy, currency devaluation and a consequent abandonment of the exchange rate peg. This expectation has the effect of inducing the sale of assets denominated in the currency in question, which investors fear will depreciate in price as the result of a downward adjustment in the exchange rate. Other investors may be less motivated by risk and more concerned to profit from the practice of exchange rate arbitrage, which involves the speculative selling (buying) of currencies and their subsequent repurchase (resale) following a depreciation (appreciation) in the exchange rate of a particular country. In general, the maintenance of a system of fixed exchange rates therefore presupposes a high level of international coordination and cooperation among states—a pattern which is likely to become increasingly strained under conditions of heightened international capital mobility (Ibid.: 223–7).

Demand for international money that is widely accepted as means of payment for financial obligations creates opportunities for strong states with highly developed capitalist banking and financial institutions to benefit from the structural power of capital. Strong national currencies may be highly demanded by the central banks of other countries in order to act as reserve assets, as well as being widely utilized as a vehicle currency for the denomination of international trade and loan contracts by parties located outside of the territory where the

currency is issued. Another source of demand for national currencies derives from the trading partners of the countries in which they are issued, who may wish to accumulate reserves with the intention of ensuring the stability of bilateral exchange rates and guarding against the possibility of a depreciation that would render their exports less competitive (Wray 2012: 133). In some cases, economic actors may be so confident regarding the capacity of certain state fiat currencies to function as money for the foreseeable future that they consider them to be ‘as good as gold’ (or better than gold, given the revenue which can be derived from holding assets denominated in these currencies). This means states that issue fiat money which circulates widely outside of their borders as both an international reserve and vehicle currency can expect to benefit not only as a result of seigniorage, but also from lower rates of interest on government borrowing stemming from investors' confidence in, and high demand for, their government bonds.

As we have already seen, confidence in state-issued fiat money derives from the political power of the state in question and its administrative capacity to tax its population, and thereby its ability to ensure investors that it will not default on its financial obligations. Another no less important, albeit less widely recognized, benefit which a state may derive from the circulation of its money as an international reserve and vehicle currency is a loosening of balance of payments constraints on its current account as a result of inflows of short- and long-term capital entering its national economy and registered on its capital account. These inflows reflect a logical accounting identity whereby the flipside of a country's total—i.e., public plus private—debt is the total demand for interest-bearing assets denominated in its national currency. As long as this demand exists, a state will be able to operate a proportionate deficit on its current account and finance its obligations independently of its capacity to produce commodities which can subsequently be exchanged for money. The availability of such a strategy to any given state is conditioned by institutional factors related to the depth and liquidity of domestic financial markets, and in particular the capacity of these markets to supply an adequate quantity of financial products to satisfy investors' demands for assets denominated in the national currency. From this perspective, deterioration in a country's international competitiveness as reflected in a growing current account deficit can be interpreted as creating political pressures for the removal of forms of state regulation which limit the freedom of private actors to originate new financial products and markets. Similar pressure is also generated by the circulation of

national currency in foreign or offshore financial markets, as capitalist firms attempt to seek out higher profits by engaging in regulatory arbitrage.

During the course of the post-Second World War period, the most sought after international money has been the United States dollar. In addition to benefiting from all of the factors mentioned already, the US state has also exercised political power to ensure that many important commodities bought and sold on the world market, the chief among which being oil, have their prices denominated in dollars. This means, firstly, that all those countries wishing to import these commodities must first obtain dollars in order to do so. Secondly, US businesses and consumers are less vulnerable to increases in the price of US imports resulting from fluctuations in the dollar exchange rate (Gowan 1999: 25). Thirdly, the United States government can readily utilize its power of seigniorage in order to finance many of its international transactions. Yet a further source of demand for dollars is what is sometimes called ‘dollarization’, namely the practice whereby the governments of other countries issue dollar-denominated debt in the belief that this course of action will likely result in lower interest rates than would new domestic currency issues (Wray 2012: 136). This practice also extends to the pricing of private contracts, and according to some estimates, the total value of US currency circulating outside of the United States exceeds that of its domestic money supply (Ibid.: 141). Furthermore, as long as the rest of the world demands dollars, the US doesn’t need to export goods and services in order to finance its import bill. The benefits which the US derives as a consequence of the high demand for its state fiat money can therefore be interpreted as a form of structural power which it is able to exercise over other countries through the seemingly impersonal operation of market forces (Strange 1987; Gill and Law 1988, 1989).

The interlinking of economic and political power that is necessary to reproduce the status of the US dollar as international money suggests there is more to the process of capitalist globalization than states acting to ensure their own survival within the structure of opportunities and constraints set by capital mobility in the international system. In this respect, the formal separation between ‘the domestic’ and ‘the international’ should not be taken as given. This tends to be the case in the debate between realists and liberals, which is cast as an epic confrontation between national states and international markets—that is, it is assumed that if the international market is ‘strong’, then the domestic state is ‘weak’, and vice versa. Rather, this line of difference should itself be viewed as a materially and

discursively constructed phenomenon, one whose boundaries are ambiguous and liable to change. Moreover, each pole within this relation should be seen as comprising elements of its 'other'. On the one hand, as Ryner (2007: 9; see also Cox 1987: 244–65) has pointed out, 'in advanced capitalism, social reproduction is so fundamentally dependent on state intervention that any transnationalisation is dependent on state action for that purpose'. On the other hand, multinational capital does not so much transcend territorialized political authority as straddle it by internalizing itself as a social force within the national territories of many different states via the lateral extension of multinational production networks through foreign direct investment (Bieler and Morton 2004: 92; Panitch 1994; Harvey 2006: Ch. 13).

This reconfiguration of the relationship between the deterritorializing thrust of 'transnational' capital and the reterritorializing agency of the national state, as Cox (1987: 253) makes clear, means that the latter 'becomes part of a larger and more complex political structure that is the counterpart to international production'. The problems posed by this political structure are expressed in international organizations, such as the World Trade Organization, International Monetary Fund, World Bank, European Commission, Bank of International Settlements, and Group of 20. However, the key mediation nevertheless remains the national state itself, which begins to undertake new functions in order to secure the social conditions of capital accumulation within its territory. Indeed, if the moment of deterritorialization can be said to entail, in Panitch's (2000: 8–9) words, the dissolution of 'the national bourgeoisie' as a 'coherent concentration of class interests' and thus the erosion of 'national capital' as a social force aligned with the state, then the moment of reterritorialization may result in the 'the host state actually [becoming] responsible for taking charge of the complex relations of international capital to the domestic bourgeoisie, in the context of class struggles and political and ideological forms which remain distinctively national even as they express themselves within a world conjuncture'. From the perspective of this double movement, it therefore becomes possible to identify transformations in the relation between capital and the state which, far from transcending the national state form, remain internal to it.

'Economic globalization' is then less a causal factor in its own right than a continuing expansion and development of the impersonal structural imperatives associated with capitalist society (Wood 2003). Likewise, far from precipitating a linear reduction in states' capacities for economic management and intervention, it implies a much more complex process encompassing the transformation of 'particular forms of state corresponding to particular

state capacities and liabilities' (Jessop 2010: 39–40). Such a process of transformation, in turn, is fundamentally dependent on the role of the capitalist state in attempting to secure the social conditions of long-term capital accumulation by advocating responses to the structural contradictions and strategic dilemmas brought into being by the process of accumulation itself. The precise content of these responses, of course, depends on the outcome of political struggles for hegemony which attempt to (re)define the interests of capital-in-general. Such struggles therefore continue to have the potential to influence the precise balance between deterritorialization and reterritorialization in particular national contexts.

6 Capitalist development and United States hegemony: some historical background

It is worth noting at the outset some context-specific factors which marked capitalist development in colonial America and continue to reverberate in the present. Firstly, an important initial condition of capitalism in colonial America was an absence of the feudal social relations and absolutist state forms characteristic of the European continent. The resulting abundance of land reduced the social dependency of labour on capital and encouraged American capitalists to rationalize production by substituting fixed for variable capital (Agnew 2005: 93). Secondly, the influence of colonial practice and ideology gave rise to an expansionary territorial dynamic involving primitive accumulation through the forcible expropriation of indigenous populations, the conversion of expropriated land from state to private property and, in the South, the development of a slave mode of production. Early American imperialism therefore took the form of 'internal colonialism'. Thirdly, petty commodity production and the family farm remained prevalent in the agricultural sector, where state intervention was employed to maintain (and, after 1930, to subsidize) agricultural overproduction (Byres 1996). This contributed to the influence of agrarian-populist rhetoric and ideas, as well as to the politicization of financial practices and relations. Fourthly, the culmination of the civil war marked the inauguration of capitalist hegemony and the beginning of national state-formation. In this respect, the postbellum period saw the South and West gradually integrated as resource peripheries within an emergent national capitalist market, exporting raw materials and foodstuffs to the North East industrial belt and importing the latter's manufactures (Agnew 2005: 78–9).

Looking specifically at financial relations, early American finance was more fragmented, decentralized, highly regulated, and geared towards product innovation and liquidity production than its British counterpart (Konings 2011). This system had its social roots in the weight of Republican agrarian-populist social forces in US society, which acted to prevent the emergence of a more centralized and integrated system. Consequently, the National Banking Acts of 1863 and 1864 reproduced rather than overcame this path of institutional development. For example, the Acts did not establish a central bank or prevent states from chartering and regulating their own banks. Restrictions on branch banking likewise remained in force, banks were still prohibited from discounting bills of exchange, as well as holding industrial stock, and the size of loans that could be made to a single borrower continued to be restricted (Ibid.: 41–2).

The gradual establishment of capitalist hegemony in America following the Civil War created the socio-institutional conditions for a long wave of economic growth. During the period 1865–1914, the United States was transformed into a fast-growing and highly competitive capitalist economy:

Driven by competition, capitalist producers dramatically increased fixed capital investments, thereby making possible major increases in aggregate productivity—in other words, accumulation via the methods of extending relative surplus-value. At the same time, lower prices resulting from productivity increases combined with workers’ bargaining power to allow significant increases in real wages and workers’ consumption and an impressively growing home market (Brenner and Glick 1991: 73–4).

However, the American economy nevertheless remained plagued by chronic instability and financial crises throughout the 1870s, 80s and 90s.

A key institutional innovation enabling the accumulation of capital after the 1870s was the privatized joint-stock company form. This socio-legal form, combined with a concern among manufacturers to exploit a geographically diffuse resource-base, led industrial capital to concentrate and centralize in ever-fewer and larger firms, firstly in the railroad sector and then in manufacturing (Roy 1997). This concentration and centralization of capital was correlated with capitalist crises. The ‘Great Depression’ of 1873–96 encouraged a mergers and acquisitions wave to designed to reap economies of scale, neutralize competition and facilitate entry into foreign markets (Agnew 2006: 86). A second phase followed the 1893–6

downturn. This latter phase saw the largest merger boom in US history. According to Foster (2002: 5), between 1898 and 1902 alone, an estimated quarter to a third of all capital assets in the US underwent consolidation.

The transition to a form of capitalist economy dominated by giant manufacturing corporations generated new competitive pressures on the banking system, squeezing the profits of highly regulated national banks. This resulted in tendencies towards financial ‘disintermediation’. As their clients increasingly bypassed them in favour of direct borrowing in money and capital markets, or from state banks and trust funds which were not subject to the same stringent regulatory restrictions, the banks eschewed credit loans in favour of investing in financial market products, such as call loans and commercial paper. The market for call loans, in particular, established a network of relations linking up activities of banks and the stock market, and in the 1890s the banks set up securities affiliates and joined up with large investment banks (Konings 2011: Ch. 4).

According to Konings (Ibid.: 44–5), banks’ participation in the market for commercial paper led them to reconceptualize the security of an asset, as ‘lending criteria gradually shifted from traditional ones (such as the nature of an underlying transaction or endorsement) to borrowers’ personal credit’, while their participation in the market for call loans led them to reconceptualize the meaning of liquidity: ‘Although traditional notions of liquidity related primarily to the maturity match between assets and liabilities (i.e., because deposits and bank notes were demand liabilities, assets were supposed to be short-term and self-liquidating), the new banking methods conceptualized liquidity not so much as the property of an asset itself but as the product of wider institutional structures, in terms of the ease with which an asset could be disposed of in financial markets’. Banks’ increased access to liquidity as the result of financial banking paradoxically enabled them to extend new loans (Ibid.: 51). This gave a huge boost to the incorporation wave in the 1890s, and precipitated the growth of a large market for industrial securities. American finance thus acquired a peculiar ‘financial banking’ form in which financial and industrial capital were linked by institutional networks encompassing, on the one hand, the stock market, and on the other hand, money and capital markets.

The federal government, which was concerned to secure the conditions of the large-scale financing required by the construction of a national system of railroads and other types of

infrastructural investment, generally supported the establishment of an oligopolistic industrial structure (Agnew 2005: 94), albeit alongside uneven and sometimes unsuccessful efforts to construct a parallel 'regulatory state' apparatus (Eisner 2011: 46–54). Its support was reflected in, for instance, the constitutional rights of full personhood awarded to corporations following the outcome of the 1886 *Santa Clara County v. Southern Pacific* case in the Supreme Court, in which an 1868 measure whose intended purpose was to ensure the equality of freed slaves before the law was invoked to argue that corporations were equivalent to legal persons (Agnew 2005: 84–85). Furthermore, as part of the political project to create an integrated national market economy, the federal government sought to curtail the passage of protectionist legislation by the states which imposed restrictions on interstate commerce. The removal of these barriers encouraged capitalist firms to increase in size in order to compete more effectively through economies of scale.

Economic dynamism enabled US manufacturers to successfully compete with their British rivals. For example, by the turn of the twentieth century, average labour productivity in the United States was more than one-and-a-half times that of England, meaning that the former enjoyed lower overall unit labour costs despite paying higher wages than the latter (Brenner and Glick 1991: 74). More generally, between 1870 and 1914, American capital exerted economic influence by engaging in overseas trade, marketing and foreign direct investment, as well as through exhibitions and fairs which transmitted American practices, technology and ideas to Europe and elsewhere.

The changing character of capitalist development in the United States was associated with a transformation in the nature and dynamics of the international system. The internationalization of US capital assumed a distinctive form which differed fundamentally from the territorialist logic of European colonial and imperialist expansion. In this respect, American capitalists and politicians in the 1890s came to view the problem of overseas expansion as involving the creation of conditions for the proliferation of markets in which US firms could sell and invest. This expansion, it was believed, would ensure the maintenance of economic (i.e., capitalist) freedom at home by relieving the squeeze on domestic profits, rising unemployment and growing strength of the socialist labour movement in the wake of the 'Great Depression' (Agnew 2005: 87). By 1914, at least forty-one US companies, mainly in the machinery and food processing industries, had established two or more factories overseas (Ibid.: 86). The federal government also played a key role in pushing forward the

internationalization of American business through its management of the national economy. For instance, the system of patent protection in the United States incentivized overseas expansion by limiting the diffusion of new technology between firms for long periods of time (14 years in 1790 and 17 after 1861) (Ibid.: 93).

By the time the First World War was starting, America's giant manufacturing corporations had already established themselves as leading players in a number of European growth markets, such as those for machinery and motor vehicles—a trend which continued into the interwar period. According to Foreman-Peck (1982), the internationalization of American capital in the 1920s formed a response to a payments imbalance which had emerged as the result of the relative superiority of American technology vis-à-vis European manufacturers. While this superiority enabled the US to substitute its own products for imported ones, American capital and consumer goods nevertheless remained in high demand in Europe. Given the shift towards international economic protectionism in many European countries,

unlike much of European capital exports before the war, the long-term American foreign investment in Europe concentrated more on direct rather than portfolio investments, and on manufacturing industry rather than on mines, plantations, and public utilities. In 1900 there were about 28 American-owned manufacturing plants in Europe; by 1929 there were approximately 1,300 (Foreman-Peck 1982: 866; see also Konings 2011: 78).

The competitive advantage enjoyed by US manufacturing in European markets was not only the outcome of technological superiority, narrowly conceived, but also reflected the greater technical efficiency embodied in Fordist-style labour processes. Consequently, these practices spread quickly in Europe between 1918 and 1939, where idiosyncratic Fordist paradigms emerged in the Union of Soviet Socialist Republics, the Italian workers' council movement, and Nazi Germany (Jessop and Sum 2006: 72–3). While the adoption of these new methods of production by European businessmen can be viewed as an economic response to the 'American Challenge' of the 1920s and 1930s, it also gives an indication of the moral, intellectual and political leadership exercised by US capital over Europeans in a post-First World War context characterized by political polarization and increasing disillusionment with capitalism. The dissemination of Fordist mass production and scientific management techniques not only signified technical prowess, but also enabled US business to exert a profound influence on 'the social organization of production, management practices,

political ideology and culture far beyond American borders' (Rupert 1995: 67). The major consequence of this influence was to rejuvenate the idea of 'progressive capitalism' within both the American and European labour movements. This vision was premised on the idea that class antagonisms could potentially be resolved *in* capitalism via the greater income equality and working class consumption made possible by the rapid expansion of labour productivity and output. As such, it posed an alternative future to the European socialist vision of worker-run factory councils and democratic planning of production (Ibid.).

7 The construction of the Keynesian regulatory state

The developments in the forces and relations of production which had their origins in the United States were a necessary but ultimately insufficient condition of regularizing capitalist social relations, and were thus incapable, in and of themselves, of sustaining a long wave of economic growth. American Fordism in the interwar period was still plagued by macroeconomic instability resulting from the tendency of production to outstrip consumption, as well as worker resistance to the introduction of new forms of capitalist discipline and control over the labour process. In the 1920s, as the distribution of national income became increasingly skewed towards capital and wage rises failed to keep pace with productivity, class struggles between capitalists and workers intensified (Ibid.: 79). On the one hand, labour strikes were met with police coercion and the increasing employment of guard labour by firms. In the wake of the first successful communist revolution in Russia, state power was also increasingly brought to bear on trade unionists and suspected radicals. On the other hand, the largest capitalist firms sought to co-opt workers by establishing employer-sponsored insurance and pension plans, employee stock purchase plans, company unions, as well as organized sporting and social activities (Ibid.: 78–9). These forms of 'welfare capitalism', however, were superseded by a concern among employers to slash worker remuneration following the outbreak of capitalism's second 'Great Depression' in 1929 (between 1929 and 1933, US real GNP fell by 29 per cent). The strike wave peaked after 1933. As Rupert (Ibid.: 80–1; see also Newsinger 2012; Skocpol 1980: 168–69) catalogues,

When section 7(a) of President Roosevelt's National Industrial Recovery Act (NIRA) of 1933 appeared to give federal government sanction to labor organization and collective bargaining, but failed to convince employers that independent unions were mandated, an explosion of labor organizing and militance occurred ... Whereas 1932 witnessed the initiation of 841 work

stoppages, 1,695 strikes were begun in 1933. Only 1.8 percent of the total workforce had been involved in stoppages during 1932, some 324,000 workers; but this proportion increased more than three-fold, to 6.3 percent, in 1933 when 1.17 million workers struck. Worker-days lost to strikes increased more than 60 percent, from 10.5 million in 1932 to almost 17 million the following year. In 1932, the proportion of strikers involved in stoppages where union organization was the major issue was about 22 percent; the following year that proportion had increased to around 41 percent, and by 1934 was greater than 51 percent. And this was only the beginning of depression-era unionization and militancy ... Between 1933 and 1937, work stoppages averaged 2,495 per year, an average of 5.8 percent of the workforce—1.28 million workers—were out on strike, and nearly 19 million worker-days were lost in an average year. In 1937, at the crest of the great strike wave, over 4,700 strikes were initiated, involving 1.86 million workers – more than 7 percent of the nation’s entire workforce – of whom almost 60 percent were involved in strikes where unionization was the primary issue. By 1939, over 28 percent of non-agricultural laborers were union members, whereas in 1933 that figure had been only around 11 percent.

The seemingly intractable nature of the capitalist crisis, and the subsequent shift in the balance of class forces resulting from the generalization of militant labour struggles, eventually precipitated a crisis in the American political system. The hegemonic consensus on *laissez-faire* which had guided economic policy-making in the American state up until this point now gave way to an attempt on the part of political elites to construct new state institutions and modes of intervention which would be more readily capable of resolving the crisis on terms favourable to capital. This process of construction entailed hegemonic struggles within the capitalist class and the political elite. The outcome of these struggles saw the emergence of a new political power bloc comprising a constellation of social forces which van der Pijl (1984) describes as articulating a ‘corporate liberal synthesis’. This synthesis initially received clear expression in Roosevelt’s ‘New Deals’ for the American people in 1933–4 and 1935–6, respectively, which together marked a more extensive break with the orthodox liberal economic policies of the previous Hoover administration. As Cox (1987: Ch. 7) makes clear, the significance of the New Deal was that it entailed ‘a modified form of liberalism comprising an emphasis on industrial productivity and growth as conditions of political stability, an acceptance of limited state intervention in markets in order to secure this growth, the incorporation of moderate trade unions within corporatist frameworks of interest intermediation and collective bargaining, and a commitment to a managed liberalisation of trade and investment at the international level’. It also marked a shift in the *raison d’etat* of the American state, which would now seek to derive democratic legitimacy from its attempts

to manage key institutional parameters of economic activity in the name of an imagined general interest of society. These attempts required new forms of knowledge, and the New Dealers turned to the emergent field of Keynesian macroeconomics in order to construct and justify their economic reform proposals (Konings 2011: 81).

New financial legislation introduced by corporate liberals set the terms for a significant shift in relations between the productive and financial fractions of capital in the American economy. More specifically, the Banking Acts of 1933 and 1935 separated and compartmentalized commercial and investment banking, insurance and other forms of financial activity, prevented the mixing of banking and industrial activities within a single firm, established public oversight of securities markets through the establishment of a new Securities and Exchange Commission (SEC), as well as a new Federal Deposit Insurance Corporation (FDIC) to underwrite commercial bank liabilities, prohibited the payment of interest on some commercial bank demand deposits and set maximum interest rates for others, guaranteed deposits held at Federal Reserve member banks and shifted power away from the latter and centralized it in the Federal Reserve Board. Crucially, these reforms were not designed to ‘repress’ financial markets through an assertion of state regulatory power. Rather, their purpose was to more effectively channel market forces in the pursuit of long-run economic growth by securing their social conditions of existence. The aim of the Roosevelt administration was to reorient financial capital away from ‘unproductive’ forms of investment, such as speculation on asset prices, and towards a greater provision of funds to domestic manufacturing industry in order to aid the production of new output. This would limit financial capitalists’ freedom to invest, but in so doing would make investment capital available to industrialists on favourable terms. Konings (*Ibid.*: 77) has therefore appropriately described Roosevelt’s New Deal as setting in place ‘new foundations for financial expansion’. While the effects of this transformation were not immediately evident during the Great Depression and World War II, which were marked by stagnation in private financial markets (*Ibid.*: 102–3), both the commercial and investment banking sectors recovered rapidly in the 1950s. On the one hand, New York became the world’s premier financial hub, attracting some US\$4 billion in foreign securities—a figure which nevertheless paled in comparison to the US\$126.5 billion in domestic issues during that decade (*Ibid.*: 104). It also benefited from the removal of commercial banks from the securities trade, as well as the SEC’s commitment to sharing political authority with private actors in the securities sector in order to construct new regulation. On the other hand, commercial banks’ holdings of

government securities meant that they were well placed to respond to new demand for corporate, consumer and mortgage credit (Ibid.). The FDIC also reduced the potential for deposit runs, allowing banks to take greater risks. This greater risk potential was expressed in the creation of new financial products, such as the more flexible ‘term loan’.¹ Furthermore, within the terms of the New Deal settlement, the financial sector was able to grow increasingly concentrated, with the SEC estimating in 1963 that 5 per cent of investment firms grossed 60 per cent of the income generated by the securities industry (Ibid.).

The state also played an active role as a financial market participant in its attempt to balance these two contradictory objectives. As part of the New Deal response to the structural contradictions which had condensed in the form of capitalism’s second Great Depression in 1929, the responsibilities of the Federal Reserve System were expanded to include commitments to the prevention of economic downturns and the maintenance of full employment. This aligned the Fed more closely with the US Treasury, the department centrally responsible for financing the American state through fiscal policy. In particular, the Federal Reserve’s support for Treasury debt issues led to the development of the American state’s key tool of monetary management, namely the Fed’s ‘open market operations’ (Sarai 2009: 75). Open market operations provided a mechanism through which the Roosevelt administration, distrustful of investment bankers, could influence the behaviour of commercial banks by increasing the amount of credit they supplied to the wider economy. As the Treasury issued new government securities, the Fed assumed a leading role in the market with the aim of buying and selling from primary dealers in order to keep the price of issues low, drive down the federal funds rate (the rate at which banks borrow excess reserves from each other) and thereby reduce government borrowing costs. This was not a one way relationship in which the government coerced the commercial banking sector to achieve its

¹ As part of an expansion of corporate lending, banks offered more flexible ‘term loan’ products which did not require SEC registration. Term loans had a risk logic based on projections of future cash flow and profits, as opposed to a narrow focus on a firm’s current balance sheet or collateral valuation. To be effective, this required banks to acquire a detailed knowledge of a firm and its industry to inform decision-making. In the environment of the post-war boom, this long-term orientation was highly successful (Konings 2011: 105). The expansion of consumer and mortgage credit had been underway since the 1920s and continued during the Great Depression as debt repayments became a priority for many households. Indeed, consumer loans as a proportion of total bank assets in 1939 were double what they had been a decade before (Ibid.: 106). New Deal policies also increased access to consumer and mortgage credit. Banks offered credit cards, car loans and second mortgages, all the while relaxing the terms of credit, lengthening the repayment period and requiring lower down-payments. In this way, the American public became an integral part of the financial system as borrowers and consumers (Ibid.).

own ends. Open market operations made government securities highly liquid assets because in order to keep issue prices low, the Fed committed itself to purchasing any government security offered at that price, thereby enabling banks to sell any amount of securities at a profit (Konings 2011: 102). In effect, commercial banks became administrators of low yield but abundant government paper in an economic environment characterised by low interest rate monetary policies implemented by the US Treasury and Federal Reserve.

While the corporate liberal political project achieved considerable success in its attempt to construct a stable coalition of interests capable of articulating and sustaining a hegemonic general interest, the shift towards an accumulation strategy premised on the economic dominance of productive capital within the overall circuit of capital generated attempts among financiers to augment profits and attain competitive advantage by recapturing their lost economic freedoms. In this respect, while the New Deal reforms did not interfere with the basic social relations constitutive of capitalism, they nevertheless succeeded in altering the economic ‘laws of motion’ of American capitalism by generating new contradictions. Russell (2008) has identified the principal contradiction of the New Deal financial architecture, which aimed to simultaneously, on one hand, provide investment capital to manufacturers on favourable terms, and on the other hand, maintain financial sector profitability. For example, while the compartmentalization of markets for different financial products placed downward pressure on profits by intensifying competition in each business niche, federal deposit insurance and interest rate controls, as well as legislation limiting the entry of new banking sector participants, acted as stabilizing mechanisms which buttressed financial profitability (Ibid.: 8–9). This tension between the twin objectives of manufacturing-led growth and financial sector profits came to be expressed in real time as a strategic dilemma for the American state, which was obliged to find ways of supporting financial sector profitability, whilst avoiding upward pressure on the costs incurred by firms when accessing investment capital from financial institutions (Ibid.: 9).

The New Deal banking and financial reforms also modified the relationship between the financial fraction of capital and the American working class. Financial markets were a key part of the Roosevelt administration’s reform strategy, and one of its aims was to extend the availability of mortgage and consumer credit to workers who were previously excluded from accessing it. Against Russell’s argument that the New Deal banking reforms can be adequately summarized as ‘Keynesian Welfare State Capitalism’,

this integration of the working classes into the structure of American finance capital sets the New Deal institutions apart from the welfare states erected in Western Europe after World War II. Whereas the latter effected a significant degree of decommodification ... the New Deal programs did not so much reduce as increase the working classes' dependence on markets (Konings 2011: 106).

As a result of the historically specific power relations between financial capital and the state which had been formalized as part of the New Deal settlement, the growth of financialized forms of social relations accelerated dramatically during the post-war years. This process extended the 'Fordist consumption norm' (Aglietta 2001) to encompass not only those goods produced *en masse* by productive capital within the factory system, but also financial goods and services as growing demand for credit was generated by post-war patterns of economic growth and consumption. This evolution created a social base which would henceforth be capable of legitimating further rounds of financialization.

8 Internationalizing corporate liberalism

The interwar period saw the emergence of more explicit forms of international cooperation among capitalist states on matters of monetary and financial governance. This process was primarily led by private interests. The United States had emerged from the First World War as a net creditor to the rest of the world for the first time, signalling a shift in the world's financial centre of gravity away from London and towards New York. As Frieden (1987: 48) points out, 'in 1914, American loans to foreigners totalled less than a billion dollars and the country was a net debtor; by 1929, foreign debt to American investors was over \$8 billion and the United States was the world's principal lender, while direct investments by nonfinancial corporations were another \$7.5 billion'. In this changing international environment, financiers played a key role in forging a liberal internationalist approach to foreign economic policy based on the advocacy of free trade and a more forgiving attitude towards the debts which European countries had accumulated during the war. Central banks also played a significant role in this process. The chairmen of the boards of the New York Federal Reserve and the Bank of England led negotiations over the issue of German reparations payments, with the result that the Dawes Plan was established in 1924. They were also involved in the planning of a series of international conferences on economic issues conducted by the Economic and Financial Organisation of the League of Nations between

1920 and 1933 (Peet 2009: 40). An international bank for post-war reconstruction was first proposed at a conference in Brussels in 1920 and a proposal to restore the Gold Standard and stabilize it through central bank cooperation, managed by an international convention, was discussed in Genoa in 1922. In the mid-1920s, the League of Nations helped to arrange loans in an attempt to stabilize the economies of several European countries, and a League international conference held in Genoa in 1927 passed resolutions dealing with trade, cartels and other issues which came to be viewed as comprising an international code of behaviour in policy matters.

This partial liberal internationalist settlement was interrupted by the fallout from the Great Depression after 1929. The destruction caused by the war combined with the burden of war debt and reparations payments to make European economies seriously vulnerable to the downturn. After 1929, American foreign investment in Europe dried up and the 1930 Smoot-Hawley Tariff Act put an end to the merry-go-round of reparations payments whereby 'France paid the interest on its US war debts, Germany paid reparations to France, and Wall Street lent to Germany so that German production and exports could be increased to help pay for reparations' (Frieden 1987: 41–2). The collapse of liberal internationalism in this period, however, is most clearly symbolized by the failure of the World Economic Conference of 1933, when the Roosevelt administration called for the governments of all states to implement orthodox liberal policies, such as balanced budgets, the removal of protectionist barriers to the free movement of goods and capital, and a return to the Gold Standard (Ibid.).

However, liberal internationalism would eventually re-emerge in the wake of the severe crises of the 1930s and 1940s as a core element of the new corporate liberal political settlement pioneered in the United States. In this respect, the 1944 Bretton Woods conference proved to be a landmark event. This not because it provided a forum for genuinely international economic diplomacy, but rather because it enabled the US to formalize its dominant international position through the creation of an international monetary and financial regime in which it occupied the leading role and that would reflect its interest in constructing and reproducing a liberal international economic order.² The United Nations'

² The Bretton Woods *Summary of Agreements* of 22nd July 1944 states that the conference represented 'nearly all the peoples of the world'. In practice, however, this was a fiction. The Soviet Union and the countries comprising the Eastern Bloc of self-declared communist states, which maintained a firmly isolationist stance with respect to Western plans to construct an international capitalist order, did not attend. Furthermore, in 1944 the process of formal decolonization was not yet underway and

Monetary and Financial Conference took place at the Mount Washington Hotel in Bretton Woods, New Hampshire in the United States from 1st–22nd July 1944. The conference was attended by delegations from the finance ministries of 44 countries and was led by the delegations of the United States and United Kingdom. The starting Temporary President of the Conference was the Chairman of the Delegation of the United States, then US Treasury Secretary Henry Morgenthau Jr. The stated purpose of the conference was to establish, through international cooperation, the principles and rules which would form the basis for governing the international economy following the end of the Second World War. The conference itself took place before the culmination of hostilities, and only 15 of the 44 delegations included the finance ministers of their respective governments, while the remaining ones were chaired by senior diplomats from central banks. Unbeknownst to the majority of participants, many of the principles which underpinned the Articles of Agreement which were eventually signed reflected prior diplomacy and negotiations between the respective Treasuries of the United States and United Kingdom. In particular, the signing of the Atlantic Charter by Roosevelt and Churchill in August 1941 laid out a vision for post-war international order premised on national self-determination, free trade, economic multilateralism and social welfare (Peet 2009: 48–9).

The Articles of Agreement signed at Bretton Woods set out plans for the creation of two new international economic institutions to be established the following year. These were the International Monetary Fund and the International Bank for Reconstruction and Development (IBRD). The former received a mandate to establish and regulate a relatively open and multilateral system of trade and payments, one which would be able to reconcile economic openness and trade expansion with flexibly fixed exchange rates, capital controls and commitments by national governments to full employment and economic and political stability.³ In pursuit of these aims, the IMF aimed to establish mechanisms to ensure the

many of the peoples of the world which were apparently represented at Bretton Woods remained the legal imperial possessions of other countries. The result was that these countries came to be integrated within the structure of a world economy which they neither managed nor controlled (Peet 2009: 47).

³ These basic purposes of the IMF are laid out in Article 1 of its constitution, the Articles of Agreement: '(1) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems. (2) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy. (3) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation. (4) To assist in the establishment of a multilateral system of

stable expanded reproduction of international monetary and financial relations. Firstly, it would promote exchange rate stability through the maintenance of an international credit facility from which countries could draw in order cover shortfalls in their balance of payments. Secondly, it would act as a revolving fund, enabling countries to purchase foreign currency in exchange for their own (Ibid.: 74–8). The IBRD, which was viewed as being less important than the IMF overall, was initially conceived in order to play a role in financing the reconstruction of post-war Europe.⁴ The conference also proposed the creation of a third institution, the International Trade Organization (ITO). This latter proposal reflected the signing of the ITO Charter at the United Nations' Conference on Trade and Employment, which was held in Havana, Cuba in March 1948. However, the Charter was not ratified by the United States Senate and the General Agreement on Tariffs and Trade (GATT) that was eventually signed in 1947 was much less ambitious in terms of its powers and scope.

The international monetary and financial system which emerged from the Bretton Woods agreement functioned on the basis of a structure of stable exchange rates, whereby each currency was pegged to the US dollar and only the latter was convertible to gold. This established the dollar as international money, thereby guaranteeing demand for the latter as both a reserve asset and means of financing trade and investment. The purpose of the stable

payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade. (5) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity. (6) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members'.

⁴ The basic purposes of the IBRD, as laid out in Article 1 of the (original) Articles of Agreement, are the following: '(1) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries. (2) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources. (3) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balance of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories. (4) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first. (5) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate postwar years, to assist in bringing about a smooth transition from a wartime to a peacetime economy'.

exchange rate system was to reduce the risks associating with exchanging money and commodities internationally, as well as to prevent European countries from engaging in competitive currency devaluations in order to compensate for their lack of competitiveness vis-à-vis the American economy (Konings 2011: 90). Furthermore, it must be underlined that both the constitution and institutional design of the IMF and IBRD, as well as the Bretton Woods stable exchange rate system, reflected the immense economic and political power concentrated in the United States at this time as a result of the wartime devastation in Europe. Firstly, the US Treasury aimed at ending the Imperial Preference system based on sterling credits which had been established at the 1932 Ottawa Conference and using its status a net creditor to leverage the growth of American exports in the British Commonwealth (Konings 2011: 89). Secondly, it wanted to ensure that the dollar played the central role in the international payments system, ensuring a regular flow of business to the big American banks. US Capital controls were oppositional to this because they would prevent Wall Street from mounting a successful challenge to the City of London in Europe. Thirdly, it wanted to ensure that the onus of adjustment would be placed on states running balance of payments deficits, rather than on surplus countries like itself. In pushing forward these aims, US diplomats ignored the concerns of other countries, most notably those of the United Kingdom. The UK Delegation, chaired by John Maynard Keynes, sought to maintain the sterling area and relieve some of the burden of its national debt (Hudson 2003: 145–6). Keynes raised concerns that the use of the US dollar as international money would encourage currency speculation, proposing instead an alternative ‘stateless’ international currency called the ‘bancor’, which he suggested could be fixed to gold without any trace of national identity. Furthermore, in opposition to Henry Morgenthau’s favoured ‘international stabilization fund’, Keynes advocated an ‘international clearing union’ in which the pound sterling would retain a central role and that would distribute rights and obligations equally to surplus and debtor countries (Seabrooke 2001: 49–52).⁵ However, while the UK proposals were rejected

⁵ In effect, the idea of Keynes’ international clearing union involved treating balance of payments surpluses and deficits as debits and credits, as opposed to as real assets. Given that states in surplus would be taking out credits, they would be required to pay the international clearing union at the point when this credit exceeded some multilaterally agreed limit, thereby encouraging them not to run large surpluses whilst others were in deficit. Thus, as opposed to placing the burden of adjustment on countries with a surplus of consumption over production, the international clearing union would function by requiring those states operating surpluses to increase the quantity of goods and services they imported in order to assist deficit countries. Keynes envisioned a well-capitalized institutions in which states would be entitled to access a fund of US\$25-30 billion in credit, with the exact quota being determined by their share of international trade, in order to assist with balance of payments adjustments (Seabrooke 2001: 51–2).

by the Americans, who had been transferring funding and resources to Britain since the very beginning of World War II (Peet 2009: 50) and exercised a tight grip over the conference administration and proceedings, it is nevertheless the case that both parties endorsed an international monetary and financial system in which states would be able to utilize capital controls in order to maintain their national policy autonomy (e.g., by preventing tax evasion, offshoring of funds and speculative short-term capital flows) (Ibid.: 50–1). Nevertheless, significant opposition to liberal internationalism remained within the United States domestic political system, where it was widely thought that investors should have a right to determine the movement of their capital and that speculative capital flows were vital instruments to stop governments from pursuing ‘unsound’ inflationary economic policies (Hudson 2003: 53). It was because of the possible imposition of capital controls that the US Congress House Banking Committee opposed the ratification of the Bretton Woods Agreement, and the latter was subsequently reformulated with numerous revisions to those sections concerned with the implementation of capital controls. Overall, the United States was in a clear position to dictate the ultimate terms of the settlement to Britain, and the IMF was eventually modelled on White’s international stabilization fund.

9 A New Deal for the world economy

The United States emerged from the chaos of the Second World War as the world’s most formidable economic and military power by far. This lead reflected its relatively minimal involvement in the conflict, as well as the considerable damage done to the economies of the Allied and Axis powers. The American economy had benefited greatly from its manufacturing of armaments to meet wartime demand. This entailed a domestic stimulus which was the single most decisive factor in bringing an end to the Great Depression of the 1930s and early 1940s, over and above the New Deal reforms introduced by the Roosevelt administration. A large current account surplus was the inevitable result. Furthermore, as of 1947 over 70 per cent of world’s gold reserves were concentrated in the United States, greatly increasing its banking system’s capacity for credit creation (Arrighi 1994: 275; Hudson 2003: 138). This also had the effect of strengthening the hand of New York financial elites, for whom ‘the dollar’s new role offered a unique opportunity for Wall Street virtually to monopolize the issue of dollar-denominated liabilities’ (Seabrooke 2001: 54). Yet a further indication of the United States’ near monopoly on world liquidity was its significant lead in

terms of national income and effective demand, which totalled six times that of Britain, France, Germany and the Benelux countries combined in 1948, and over six times that of the USSR (Arrighi 1994: 275).

While it may have failed to bring an end to the Great Depression, the terms of the US New Deal would decisively influence the transformation of world order in the immediate post-Second World War period. Just as *laissez faire* economic policy had proved to be an unworkable response to capitalist crisis at home, so too would it prove inadequate to deal with the political dilemmas facing the United States internationally. The legacy of the Second World War had been to create a structural imbalance in the distribution of international liquidity in the world economy as a whole. The result was a dollar shortage, which functioned as a constraint upon the ability of the rest of the world to purchase American exports. Ironically, this risked creating an impasse for the American economy. In particular, the US's new status as a 'safe haven' for capital fleeing Europe and Japan did not sit well with either Congress or sections of US manufacturing. Both were concerned that a rising dollar would harm sales of US exports to foreign markets or create the conditions by which foreign goods would penetrate the domestic market. The calls for protectionism in matters of international trade which these concerns aroused shared little in common with the liberal internationalist vision of President Roosevelt, which had received expression in documents such as the Atlantic Charter and the Bretton Woods Articles of Agreement.

The Roosevelt administration had been suspicious of high finance because of its role in generating the Great Depression. President Roosevelt's condemnation of the 'old fetishes of so-called international bankers' (quoted in Frieden 1987: 55) and Henry Morgenthau's statement that the goal of Bretton Woods had been to 'drive the usurious moneylenders from the temple of international finance' convey something of the sentiments involved (quoted in Helleiner 1994: 4). Such attitudes led James Warburg, an influential banker and advisor to the State Department, to resign in disgust. Likewise, Dean Acheson, a prominent Wall Street lawyer, resigned as Acting Treasury Secretary following the administration's implementation of a managed devaluation of the dollar—a move which violated the bankers' sacred principle of 'sound money' (Friden 1987: 55). However, this situation changed when, following Roosevelt's sudden death in April 1945, the New York banks, now freed from suspicion, came to dominate foreign economic policy-making under the Truman administration. The whole idea of 'embedded liberalism'—especially as it was conceived by Keynes and White

in terms of an extensive role for controls to limit flows of speculative capital that had the potential to disrupt exchange rates and international trade—was alien to them. Rather, they looked upon financial activities as exerting a form of market discipline over governments which would otherwise be inclined to follow ‘unsound’ economic policies. Consequently, the banks lobbied hard for international free trade and a temporary and limited role for capital controls in facilitating post-war reconstruction, as well as for an eventual return to currency convertibility.

The dollar shortage in Europe provided the financiers with an opening to pursue their interests. Under their leadership, from 1945 until 1947 the United States rejected multilateral cooperation and instead put pressure on Western Europe to restore currency convertibility and price stability. In the case of Britain, a large dollar-denominated loan was exchanged for a commitment to remove its exchange controls. The result was an economic crisis when, in 1947, huge flows of capital exited Europe and entered the United States (Helleiner 1994: 6; Frieden 1987: 65–8). As the pound sterling came under speculative attack and the Bank of England’s reserves started to drain, Britain had no choice but to re-impose exchange and import controls after only a few weeks (Konings 2011: 91). From the perspective of the corporate liberal interest in re-establishing the conditions of international economic liberalism, this outcome actually represented a step back insofar as it served to strengthen the appeal of bilateral currency arrangements and of protectionism in Europe more generally. On the other hand, the failure to manage a return to full currency convertibility significantly discredited the orthodox liberal economics of the New York investment banks.

Such was the scale of this problem that the IMF and IBRD were quite incapable of dealing with it, and these institutions would play only a marginal role in international economic affairs at this time. Neither could it be solved through the passage of protectionist legislation or forced monetary liberalization. Eventually, it became clear to policy-makers in the United States that a condition for the re-establishment of currency convertibility, and of liberal international economic norms and the social conditions of capital accumulation more generally, was an improvement in the balance of payments situation of the European countries. As Arrighi points out, such improvement would require a redistribution of world liquidity so that the rest of the world could ‘purchase from the United States the means of production which it needed to supply anything of value to US consumers in whose hands most of the world’s *effective* demand was concentrated’ (Arrighi 1994: 278). Until then, a

vicious cycle would ensue, in which 'scarce liquidity abroad prevented foreign governments from lifting exchange controls; exchange controls discouraged US capital from going abroad; and small flows of US private foreign investment kept liquidity abroad scarce' (Ibid.: 280).

With the aim of resolving the dollar shortage once and for all, American corporate liberals began rallying support for a comprehensive programme of aid to Europe. While this strategy was undoubtedly controversial for many members of Congress, the elaboration of the Truman Doctrine, with its aim of reconstructing Europe in order to 'contain communism' and halt the radicalization of Western European labour movements nevertheless proved successful in mobilizing a broad coalition of social forces around the idea (Brenner 2006). Although the shift to anti-communist ideology in the US government represented a victory for the politics of fear over Roosevelt's idealistic liberal internationalism, it nevertheless proved to be the only hope for the survival of the latter at this point in time (Arrighi 1994: 295–6). The legitimization of hegemony offered by anti-communism served to extend US political, intellectual and moral leadership abroad, where the ruling classes of Europe and Japan had been weakened and demoralized by the chaos of the war and the ferocity of working class struggle. The US now began to use its position as the world's largest creditor country to undertake a massive redistribution of world liquidity. This was achieved through the provision of aid via the United Nations Relief and Rehabilitation Administration (UNRRA) between 1946 and 1948, and via the Marshall Plan from 1948 until 1951. Yet, even these measures were not enough, and in this respect, Arrighi argues that the most decisive factor in resolving the problem of dollar shortage was the US administration's turn to comprehensive military rearmament following the outbreak of the Korean War in 1950.

US military aid to foreign governments and direct expenditure abroad grew constantly from 1950–8 and then during the Vietnam War between 1964 and 1973 (Ibid.: 297). However, much of this favoured the US's allies in East Asia. Increased demand for military-industrial products resulting from the Korean War actually helped to kick-start industrialization in Japan. In terms of the US aid it received, Japan benefited from an average sum of US\$500 million a year between 1950 and 1970, while between 1946 and 1978, military and economic aid to South Korea totalled US\$13 billion (US\$600 per capita) and aid to Taiwan was US\$5.6 billion (US\$425 per capita) (Arrighi 2002: 30–1). This preferential treatment based on an anti-communist stance in the Cold War continued as East Asian countries benefited from another bout of rising demand for military equipment created by the Vietnam War, easing

their transition to import-substitution industrialization (Westra 2010). In fact, the US gave East Asian exports privileged access to its domestic markets despite the fact that these countries practiced protectionism, state interventionism and even excluded US multinationals from their own domestic markets. On the other hand, Africa and Latin America received little support in comparative terms. Between 1946 and 1978, all of Africa received only US\$6.89 billion in economic aid, while all of Latin America received US\$14.8 billion (Arrighi 2002: 31). Likewise, US foreign policy in Africa concentrated on keeping pan-Africanism at bay, as in the representative case of US and Belgian support for the overthrow and eventual assassination on 17 January 1961 of Patrice Lumumba, the first democratically elected leader of what is now known as the Democratic Republic of the Congo, by the Mobutu regime.

In order to prevent European countries from accepting US aid whilst keeping economic restrictions firmly in place, the US government made financial assistance conditional upon moves towards greater European multilateral cooperation (Konings 2011: 91–2). This led to the founding of the European Payments Union (EPU) in 1950, which was an intra-European clearing system operated by European central banks. The EPU was a creation of the Organisation for European Economic Cooperation (OEEC), which had been established in 1948 by Robert Marjolin of France in order to oversee the administration of the Marshall Plan. The initial purpose of the EPU was that it would serve US interests by committing European economies to greater economic openness in the short-term, whilst helping to mediate the transition to full currency convertibility within the framework of the US-led Bretton Woods regime. However, in practice the institution ‘ended up functioning as essentially a soft currency bloc that gave European governments considerable leeway from the disciplinary effects of international financial flows ... while Britain remained aloof altogether and reinforced its relations with the sterling area’ (Ibid.: 92).

The international economic problems which the US faced in the immediate post-war period help to account for its willingness to tolerate European and Japanese statism, organized capitalism, protectionism and undervalued exchange rates. The latter were regarded as the necessary price of post-war reconstruction and a resolution of the dollar shortage. The economic dynamism of these countries benefited the US by creating a growth market for its exports and providing broadfields for its foreign direct investment (Brenner 2006: 45). US business interests were further buttressed by the new peacetime functions undertaken by the US state, which represented a subsidy to domestic manufacturing interests ‘through the

construction of a large new state sector, heavily oriented to the military, often at the expense of other, more productive forms of public spending' (Ibid.: 49). This subsidy reduced the dependence of the US economy on maintaining its export surplus. Taken as a whole, these developments were highly significant insofar as they permitted the US economy to continue operating at the levels of productive capacity utilization which had developed in response to the stimulus of wartime demand (Seabrooke 2001: 53). As Hudson (2003: 140) makes clear,

one aim common to all groups in the United States was to avoid a postwar depression caused by a reduction in public spending. The consensus in 1945 was that 60 million jobs were needed for full employment. In the absence of effective demand sufficient to create these jobs, and of finances to underwrite their related corporate investment, a leftward shift might occur in American politics.

This aim led the American state to engage in a much more activist form of economic management than it had previously undertaken by taking on greater responsibility for the reproduction of capitalist social relations on an international scale. Thus, an international New Deal became was perceived at the time as being the necessary counterpart of the continuation of the corporate liberal project in America itself.

10 Contradictions of the New Deal

Despite the success of the United States in institutionalizing its dominant position within the framework of the Bretton Woods regime, the New Deal for the world economy was not without its contradictions. In particular, two major contradictions drove its development from the 1950s to the early 1980s. The first contradiction has been identified by Triffin (1960), who drew attention to a paradox existing at the heart of the Bretton Woods regime: the US dollar could not simultaneously function as the principal source of global liquidity and remain fixed to gold in the context of a rapid economic expansion. This contradiction manifested itself as a problem in the US's balance of payments. The second contradiction then subsequently emerged as part of the US's attempts to manage and displace the effects of the first during the course of the 1970s. At this point, the locus of contradiction shifted away from the balance of payments deficit and towards the inflationary pressures which were being generated as a result of the continuing process of expansion of markets for financial securities and bank credit and the Fed's desperate attempt to construct a new institutional mechanism through which to reassert its regulatory control over this process (Konings 2007, 2011). It

was only in response to the apparent intractability of this second contradiction that the Fed ultimately decided to engage in a radical policy experiment. This experiment represented not only a decisive shift away from the Bretton Woods regime and towards a new ‘neoliberal’ international monetary and financial regime, but also marked the culmination of a process of transformation in the functioning of US hegemony.

As stated above, Triffin’s dilemma identifies two opposed developmental tendencies within the Bretton Woods international monetary and financial regime. The US dollar was required to perform two ultimately contradictory functions as a source of global liquidity and as a national currency anchored to gold. The reason for the contradiction was that while the former role was dependent upon the United States running a payments deficit, the latter ultimately required it to return to surplus. Evidently, this contradiction is concerned with the international mobility of capital across state boundaries—in this case, those of the United States. In this respect, the most important institution mediating the relationship between the globalization of finance capital and the US state was the Eurodollar market. The most common interpretation of the Eurodollar market derives from the liberal theorization of the world economy as a seamless global space of capital flows in which a plurality of national states compete over scarce resources. However, this understanding of ‘the transnational’ as an essentially ‘stateless’ space is an inadequate one from our perspective, which understands capitalist globalization as a dual process comprising both economic and political dimensions. From this latter perspective, the expansion of the Euromarket was not an expression of some immutable tendency of capital to escape state control and impose its own interests on national governments, but rather the largely unintended outcome of the American state’s attempts to reconcile its conflicting domestic and international obligations within the context of an internationalization of economic flows. Thus, the Eurodollar market was partially a creature of the US state, as opposed to an environmental factor which functioned solely as an external constraint upon its development.

As we have seen, the United States was able to resolve the initial post-war problem of an international dollar shortage by providing offsetting finance in the form of Marshall Plan aid, military spending and foreign direct investment in order to facilitate liberal patterns of international trade and thereby kick-start economic growth within the framework of the Bretton Woods regime (see also Milward 1984). Spending on such a mammoth scale had been enabled by the seigniorage power which accrued to the US as a result of the dollar’s

special status as international money. This power allowed it to engage in international transactions without regard for the kind of immediate balance of payments difficulties which served to constrain the activities of other states. Following the re-establishment of current account convertibility in 1958, New York became an international financial centre virtually by default as a result of the restrictions placed upon the issue of foreign securities and export of capital by European governments. Its main source of international business at this time was not, however, the financing of trade between third parties, but rather the holding of foreign, and especially European, central banks' official dollar reserves as deposits. This accumulation of dollar reserves was a necessary aspect of the Bretton Woods fixed exchange rate regime, which required national governments to intervene in foreign exchange markets so as to maintain the par value of their currencies. The short-term dollar-denominated assets most frequently held by European central banks, in turn, were US Treasury bills, which had become highly liquid assets as a result of the Federal Reserve's support of the debt-financing required by the Treasury's expansionary monetary and fiscal policies. The international demand for dollars created by the Bretton Woods fixed exchange rate regime played a key role in stabilizing the dollar exchange rate—a luxury not available to Britain and other states, which had to resort to various types of unilateral capital controls and offsetting finance in order to manage the increased economic volatility that followed the resumption of current account convertibility (Helleiner 1994: Ch. 4).

Even at this time, the implications of the dual functions being performed by the dollar were already visible. From the late 1950s, capital outflows from the United States began to exceed the inflows generated by its national trade surplus, bringing the overall US balance of payments into deficit. This problem was actually exacerbated by the return to current account convertibility in 1958, and within a year, the US's total dollar liabilities to foreigners came to exceed its official holdings of gold and foreign exchange reserves for the first time (Arrighi 1994: 368). This meant that the US's exploitation of its power of seigniorage was now coming into conflict with the fundamental principles on which the Bretton Woods fixed exchange rate regime was founded. This outcome was the inevitable result of the manner in which the US had chosen to resolve the post-war dollar shortage and shape the Cold War security settlement in Europe and East Asia. On the one hand, the proliferation of dollars as world money enabled the rest of the world to purchase US goods and services, including the capital goods necessary for the application of Fordist production techniques. The result was to lubricate international trade and further facilitate post-war reconstruction. On the other

hand, the generalization of Fordist production techniques across the Atlantic and the Pacific gradually undermined the 'business climate' of the United States itself, and this was reflected in its deteriorating balance of payments position (Kiely 2010: 132). However, since the United States did not appear to be willing to abandon the dollar's status as world money or to implement an orthodox liberal economic adjustment programme consisting of cuts to domestic public expenditure and increases in interest rates to cut incomes and quell inflationary pressures, the rest of the world increasingly came to view the problem as one of an ever-increasing dollar glut. Thus, within little more than the span of a decade, the problem of an international dollar shortage in the world economy had been superseded by one of generalized overproduction of US currency.

Within this transformed economic context, the international role of the dollar as a source of liquidity for the rest of the world began to undermine its stability as a national currency. In October 1960, investors engaged in speculative attacks against the US exchange rate, thereby creating market pressure for currency devaluation. Such attacks can be interpreted as representing a challenge to the credibility of the US government's stated commitment to convert dollars into gold at the fixed rate of US\$35 per ounce (Helleiner 1994: 85). However, the underlying problem of capital outflows from the United States which gave rise to them reflected the greater economic openness which had followed the internationalization of American finance capital within the Bretton Woods regime. In order to attempt to manage the contradictions of the dollar, the United States once again was forced to act unilaterally. Just as the IMF and IBRD had been unable to resolve the dollar shortage, they were completely overwhelmed by the scale of the glut. In their place came the US Treasury, which during the course of the 1960s emerged as the key actor within international finance. Unwilling to abandon the dollar's status as world money, Treasury officials sought to defend its position through unilateral action involving a range of measures intended to encourage foreign governments not to convert their dollars into gold and to prevent further capital outflows from US soil.

While their initial strategy favoured an orthodox internal adjustment premised on rising interest rates and cuts to public spending, the Kennedy administration found this unacceptable given its continuing domestic commitment to expansionary monetary and fiscal policies. Consequently, the Treasury sought to use the Exchange Stabilization Fund (ESF) to intervene in the foreign exchange market and halt the drain of US gold reserves (Seabrooke

2001: 58). In 1961, the Kennedy administration also introduced a number of regulatory changes designed to stabilize short-term demand for the dollar, including higher interest payments on foreign government-owned US government securities and tax exemptions for such payments. These changes formed part of 'Operation Twist', the goal of which was to raise short-term interest rates in order to make the purchase of Treasury Bills more attractive to foreigners without forcing up long-term rates to the detriment of firms and consumers in the 'real economy' (Konings 2011: 96). In addition to Operation Twist, other measures included attempts to mobilize the strength of other currencies in order to give indirect support to the dollar. In 1960, the Treasury initiated the creation of the London Gold Pool, as part of which several countries cooperated to supply gold to the London gold markets with the aim of driving down its price vis-à-vis the dollar. Following a five per cent revaluation of the Deutsche Mark against the dollar in March 1961, the ESF sold marks in the foreign exchange market in an attempt to hold down their price (Ibid.). The US Treasury even issued 'Roosa bonds', which were Treasury bonds denominated in currencies other than US dollars. Roosa bonds enabled the US government to hedge against the risk of dollar devaluation. They were purchased by foreign central banks and paid for with dollar reserves, but triggered a concomitant revaluation of the currency in which the Roosa bond was denominated (Seabrooke 2001: 58–9).

However, as the payments deficit continued to grow, the Kennedy Administration went a step further, aiming to curb the growth of long-term foreign lending by Wall Street through the introduction of an Interest Equalization Tax (IET) in July 1963. This type of lending had started to grow following the resumption of current account convertibility in 1958 and the Kennedy administration believed that the IET provided a workable market-based alternative to direct exchange controls (Helleiner 1994: 85–6; Seabrooke 2001: 59–60). The tax itself was premised on the idea that foreign companies chose to borrow in New York because Western European capital markets were insufficiently liberalized. Its aim was to discourage foreign borrowing by taxing foreign loans and bonds issued by banks located in the United States. Following the escalation of public spending on the Vietnam War and the implementation of the 'Great Society' social reform programmes (see McCormick 1995: 156–61), the Johnson administration extended the provisions of the IET to cover bank loans of one year duration or longer and nonbank credits. Furthermore, in 1965 it began the Voluntary Foreign Credit Restraint Program (VFCR) and the Foreign Direct Investment Program (FDIP). The VFCR was intended to curb borrowing by foreign firms and

governments in US financial markets while the FDIP aimed at restraining the amount of capital US multinational corporations could export abroad (Seabrooke 2001: 60). These were the first direct exchange controls implemented by the US government during the post-war period.

There is more to these innovative state experiments with capital controls than meets the eye. Indeed, while the US Treasury initially saw the Eurodollar market as a threat to the stability of the dollar, it quickly revised this view. This is indicated by the fact that regulations such as the IET, VFCR and FDIP did not encompass the foreign subsidiaries of US banks, meaning that dollar-denominated loans could still be made offshore (Ibid.). This not only allowed the banks to bolster their international operations abroad, but also enabled them to actively circumvent New Deal regulations at home, including reserve requirements and the Regulation Q interest rate caps. The availability of an offshore market for dollars in which they could finance their operations also constituted a huge incentive for US multinational corporations to establish overseas branches—something which the Johnson administration actively encouraged them to do. These incentives were further buttressed in 1968 when the Johnson administration made the VFCR and FDIP mandatory, provoking what Michael Moffitt has called the ‘greatest banking exodus in history’, as the number of foreign bank branches increased from 375 owned by 26 US banks to 536 owned by 79 (quoted in Seabrooke 2001: 60). As a direct result of US government regulatory initiatives, international banking grew 25 per cent annually well into the 1970s, transforming the Euromarket from a short-term money market into a fully-fledged international capital market providing services which were previously housed onshore in the United States (Seabrooke 2001: 60; Helleiner 1994: 89).

The reason why the US Treasury altered its position on the Eurodollar market was that the capacity of American financial institutions to market dollar-denominated assets abroad generated new institutional capacities which reduced the threat posed by the dollar glut to the US balance of payments. In this context, it became increasingly attractive for foreign governments to hold dollars in the Eurodollar market in order to earn an above average rate of return in the absence of state regulations, as well as to externalize inflationary pressures which limited their domestic policy autonomy. This actually helped the US to resolve its gold drain problem (Helleiner 1994: 89–90). More generally, the Eurodollar market provided states with a means by which to adjust their domestic financial positions. On the one hand, funds could be deposited there in order to reduce a country’s balance of payments surplus and

circumvent pressure for currency appreciation. On the other hand, they could be borrowed in order to finance balance of payments deficits (Seabrooke 2001: 64). Support for international capital mobility and the Euromarket thus allowed Washington policymakers, as well as those of other countries, to preserve their domestic policy autonomy in the face of growing external economic constraints.

The Treasury's support for an 'exit option' for capital via the Eurodollar market also reflected its concern to balance the contradictory imperatives of financial sector profitability and New Deal banking and financial regulations. As has already been discussed, the purpose of the New Deal banking and financial reforms was to channel low-cost investment capital into the productive sectors of the economy whilst leaving the fundamentally capitalist orientation of the financial sector unaltered. Under the peculiar conditions of the immediate post-war period, these two objectives remained more or less congruent. However, when the Federal Reserve began to gradually unwind its support for the US Treasury's deficit spending policies in the 1950s, the increase in market interest rates which resulted triggered already existing structural tendencies towards financial 'disintermediation' which the New Deal reforms had left intact. Within this new context, commercial banks which remained subject to the Regulation Q interest rate caps lost business as firms bypassed them in order to raise capital directly from investors by selling securities in the money market. This competitive disadvantage not only reduced the banks' ability to attract deposits, but also forced them to cut back on corporate lending, thereby diverting additional business to the money markets (Konings 2007: 45). In response, the commercial banks themselves increasingly became financial market players, initially by developing secondary markets for certificates of deposit. These were sold to investors at a competitive rate of interest and the resulting funds were used to sustain the growth of bank credit and attract back business which had shifted to the money market. As Konings (Ibid.: 47) points out, the shift away from the traditional model of banking and towards 'liability management' which the development of these new institutional capabilities represented essentially involved 'the further marketization of American banking. Credit relations that traditionally escaped mediation by financial markets were now in the process of being securitized'.

Banks' heightened access to funds reduced the constraints which had previously limited their capacity to generate new loans, and this new freedom engaged them in a regulatory tug-of-war with the Federal Reserve, which had become concerned with the inflationary

implications of the new liability management practices. In this context, the significance of the Eurodollar market was that it provided a monetary space in which these practices could be applied without being subject to the approval of the Fed (Ibid.). Thus, when the Fed finally attempted to seriously clamp down on domestic credit creation in 1966, the banks circumvented this policy action by importing funds which had been raised by their overseas subsidiaries operating in the Eurodollar market: 'At the end of 1969, total liabilities of US banks to foreign branches stood at about \$13 billion. As late as 1967 they had been less than \$2 billion' (De Cecco, quoted in Konings 2007: 48). The Eurodollar market thus became a mechanism by which banks could avoid Federal Reserve oversight and control, as well as reroute business whenever government domestic policy priorities threatened to adversely impact their terms of trade (Helleiner 1994: 88). More generally, the freedom from New Deal banking regulations in the Eurodollar market allowed the banks to apply the new financial techniques without limitation, thereby biasing the newly emergent framework of international capital mobility in the favour of US financial institutions. In this way, American securitized finance would come to have an influence on the rest of the world during the latter half of the twentieth century similar to that of new Fordist production techniques during the first half.

11 From New Deal to neo-liberalism

By 1971, speculation against the dollar reached a fever pitch and the US suspended the dollar's convertibility to gold in August, thereby signalling the death knell of the system of stable exchange rates agreed upon at Bretton Woods. The aftermath of this decision was a gradual breakdown of the corporate liberal settlement which had buttressed the international monetary and financial system during the 1950s and 1960s. In the absence of institutions capable of regularizing and stabilizing capital accumulation, the international system of the 1970s became more chaotic. This period saw the re-emergence of serious economic and social crises, including stagnating economic growth, inflation (including massive oil price inflation), monetary and financial volatility, a resurgent 'new protectionism' and new radical social movements (Keohane 1984; Brenner 2006; Armstrong, Glyn and Harrison 1984). However, by this time it had already become clear that the US dollar was no longer meaningfully backed by gold, and the United States retained substantial freedom to manoeuvre despite both the apparent collapse of Bretton Woods and the re-emergence of rivalry among the world's major capitalist states. In particular, the US dollar's established

position as an international reserve currency and within the offshore Eurodollar market meant that demand for it remained high, while the sheer amount of dollars in circulation meant that the United States was able to exercise a form of ‘structural power’ over other countries within the newly emergent system of offshore financial markets (Strange 1987; Gill and Law 1989; Fields and Vernengo 2011). Furthermore, given that the financial markets of other countries lacked the institutional depth, liquidity and pro-market regulation characteristic of American securitized finance and/or wished to pursue an export-led pattern of macroeconomic growth (as in the case of Germany), no serious challenger emerged at this juncture to displace the leading position occupied by the US dollar within the international monetary system (Konings 2007: 52). The result was that, in the wake of the collapse of the Bretton Woods international monetary and financial regime, the world began to slide into a new *de facto* dollar-based international monetary standard.

The strategy of ‘benign neglect’ and the dollar diplomacy pursued by the Nixon administration with respect to the US’s deteriorating balance of payments position constituted the principal expression of this new structural power in global finance. Given that the US had started to run a trade deficit for the first time in the early 1970s, the purpose of this strategy was to ‘talk down the dollar’ in order to force a revaluation of the currencies of its economic rivals. If successful, it would effectively externalize the burden of an internal balance of payments adjustment in the United States onto other countries through a relative devaluation of the dollar exchange rate. In the absence of a serious competitor currency, the rest of the world was left with the choice of whether to sell or to augment their existing holdings of dollars. To navigate this dilemma, countries wishing to maintain the competitiveness of their exports to the US domestic market were effectively forced to purchase dollar-denominated assets, or else accept a revaluation of their currencies. While the first option risked domestic inflation, the second would expand domestic purchasing power and lower the price of US imports. Either way, the US came out on top and the dollar remained the international reserve currency. In this way, the United States was able to utilize financial speculation as a weapon in order to further the interests of its domestic economic producers in the context of growing national public and private deficits, with the end result being that its current account deficit had been more or less eliminated by 1973 (Helleiner 1994: 113). In effect, the US’s balance of payments deficit had itself become ‘internationalized’ insofar as it was now a problem, not only for the United States itself, but also for the rest of the world (Konings 2007: 50).

Another aspect of the 'benign neglect' strategy saw the US engage in a decisive rejection of multilateralism, both before and after the suspension of dollar–gold convertibility. In response, other countries sought to strengthen their unilateral capital controls in an attempt to prevent capital inflows from forcing a revaluation of their currencies. Additionally, they began to make the diplomatic case for cooperative capital controls which would control capital movements 'at both ends', as well as for regulation of the Euromarket in order to stem the tide of short-term capital flows. However, these attempts ultimately proved unworkable in the face of concerted opposition by the United States, and the Western European countries and Japan were subsequently forced to adopt floating exchange rates in May 1973 (Helleiner 1994: 103). Not only did the US oppose this agenda to strengthen capital controls, but for the first time since 1945–7, it began to demand that other countries stop controlling capital movements altogether. At the height of the currency crisis in February 1973, an announcement was made that the US would abolish its own capital controls—a step which was eventually implemented in January 1974. Furthermore, in the wake of the 1973 OPEC oil price rise, the US vetoed proposals made by the then IMF managing director, Johannes Witteveen, and strongly supported by the West Europeans, Japanese and Saudis, that the recycling of petrodollars accumulated in the OPEC producer states should be undertaken on the basis of an IMF facility. Instead, it demanded that this task be left to the private financial markets. The ramifications of this shift in US foreign economic policy were substantial, since states were forced to finance the enlarged current account deficits they incurred as a result of the oil price rises by borrowing in the financial markets as opposed to drawing from the IMF (Ibid.: 111–12). This greatly benefited the US, since it was able to continue financing its balance of payments deficit by offering attractive dollar assets to foreign investors, not least among whom were OPEC investors looking to recycle their huge surpluses of petrodollars. In this respect, it is telling that by the late 1970s, 83 per cent of Saudi assets were dollar-denominated (Helleiner 1994: 113; Gowan 1999: Ch. 3).

The US's push for a market-oriented system of international capital mobility facilitated the further development of American finance. In particular, the breakdown of the Bretton Woods system of fixed exchange rates and the shift towards floating rates resulted in a heightened level of macroeconomic volatility. On the one hand, this created new profit-making opportunities for financial market actors, which were able to engage in arbitrage by speculating on differentials between the interest and exchange rates of national currencies. On the other hand, it facilitated the emergence of a new market in derivatives, the purpose of

which was to enable market participants to hedge against the risk of exchange and interest rate fluctuations by trading financial instruments, such as futures and options. In order to oversee the development of this market, the United States government established the Commodity Futures Trading Commission in 1974. Furthermore, in addition to abolishing its capital controls in January 1974, the it also began to ‘liberalize’ and ‘deregulate’ its domestic financial system by promoting liberal forms of competition, and removing legal restrictions and state control over economic relationships in order to make space for corporate regulation. In this respect, a landmark event occurred on 1st May 1975 with the so-called ‘Big Bang’ on the New York Stock Exchange. This abolished the fixed commissions received by stockbrokers on their clients’ traded securities, thereby squeezing their earnings, which were now reduced to a fraction of a percentage point on each trade. In response to the Big Bang, investment banks set up proprietary trading desks, which invested the bank’s own money at the same time as the bank continued to buy and sell securities on behalf of its clients (Gapper 2008). Furthermore, in 1980 Regulation Q interest rate caps on US bank deposits were abolished (Krippner 2012: Ch. 3). This move by the United States to deregulate and liberalize its domestic financial sector is often regarded as having been the beginning of a ‘financial services revolution’ which would gain further steam during the 1980s under the Reagan administration (Moran 1991). However, it is perhaps better understood as the culmination of a much longer process which began with the United States’ attempts to resolve an international dollar shortage in the immediate post-war period.

While the United States was able to reap significant benefits from the collapse of the Bretton Woods regime by utilizing the structural power it wielded over other countries as a result of new institutional linkages between American and global financial markets, fundamental issues nevertheless remained unresolved. In particular, the price of the loosening of balance of payments constraints on the US economy had been a concomitant loosening of the Federal Reserve’s institutional capacity to control the supply of credit generated by the private banking system (Konings 2007: 53). In other words, the contradictions of the dollar had not been resolved in any meaningful sense, but were instead displaced and reproduced in a new form. Under such circumstances, speculative attacks against the US dollar continued throughout the 1970s within the newly established system of floating exchange rates. In 1978–9, there occurred the most serious crisis of confidence in the dollar of the post-war period. Investors had rallied against the expansionary monetary and fiscal policies of the Carter administration despite the efforts of foreign central banks, which—consistent with

their behaviour throughout the 1960s—had stepped in to finance the resultant large US current account deficits as a means of protecting the interests of their domestic exporters in maintaining access to the large US domestic market. Given that a large amount of their assets were now denominated in dollars, the OPEC oil exporting countries likewise became embroiled in these attempts to prop up the position of the dollar (Helleiner 1994: 131). The speculative attacks reflected the belief that, despite the administration's efforts to instigate a reflationary route out of the 1973–5 recession, the United States continued to show no serious commitment to reducing its growing external deficit or curbing domestic inflation (Ibid.: 131–2).

The Carter administration's eventual response to the continuation of speculative attacks against the US dollar during the 1970s was a radical structural adjustment of its domestic and international obligations, one aimed at restoring the confidence of financial markets by rolling back domestic inflation. This was the so-called 'Volcker Shock' of 1979–82, named after Federal Reserve Board Chairman Paul Volcker, which saw the US engage in an extremely drastic tightening of domestic monetary policy. The 'shock' element involved driving up real interest rates from -2 per cent in 1979 to an average of 7.5 per cent between 1981 and 1985—the highest for any four year period during the twentieth century (Brenner 2003: 50; Harvey 2005: 29). Such a policy garnered considerable support among businessmen, financiers, and even Democratic Party politicians, who were concerned above all else to combat inflation in the US economy—even if the realization of this objective came at the cost of recession and rapidly rising unemployment. The collapse in effective demand which the credit squeeze provoked led to an explosion of firm bankruptcies and worker layoffs. In this respect, manufacturing output fell by 10 per cent between 1979 and 1982, while unemployment reached a post-war high of 11 per cent in 1982 (Brenner 2003: 50). However, as Helleiner (1994: 135) makes clear, the irony was that 'the triumph of "monetarism" seemed to be occurring at just the time that international linkages were reducing the Fed's ability to control the monetary base'. The Federal Reserve had realized that only a cooperative strategy among states to effect Euromarket regulation would be capable of preventing US banks and corporations from circumventing its tight monetary policy (any unilateral action by single states against US banks operating offshore would simply drive business away from their respective national economies and towards foreign competitors), but its proposals met with stiff opposition from the Bank of England and Swiss National Bank within the Bank of International Settlements (BIS) (Ibid.: 136–7). Clearly, the

internationalization of finance capital, as well as the accelerating pace of financial innovation, had rendered the Federal Reserve's task of domestic monetary management much more problematic.

Nevertheless, the Volcker Shock did enact a resolution of the inflationary pressures acting upon the US economy. Firstly, it rolled back the conditions of high domestic employment of labour which had temporarily shifted the balance of class power in favour of working people and their struggles for better pay and conditions during the 1960s and 1970s. Under such conditions, the Reagan administration was able to successfully drive down wages and lower firms' unit labour costs by undermining trade union organization and militancy. An exemplary example of the operation of this strategy was when the administration dismissed 11,345 striking members of the Professional Air Traffic Controllers Organization (PATCO) in August 1981 after they ignored an order to return to work. Secondly, although rising interest rates did not have the effect of successfully curbing the growth in the supply of private banking credit, they did reorient investment away from the 'real economy' and into the financial sector, thereby further fuelling the process of financial expansion (Konings 2007: 55). This was not only true of the domestic economy, but also globally. While in the 1950s and 1960s the US had been the world's largest creditor country, by the 1980s it had become the world's largest recipient of liquidity and foreign direct investment. This turnaround reflected the fact that countries running trade surpluses with the United States economy were increasingly willing to invest their surplus dollar export earnings in dollar-denominated financial assets, such as Treasury bonds or derivatives (Arrighi 2002; Westra 2010)—an outcome which was itself a direct consequence of the US's growing structural power in international finance. Thus, the Reagan administration was able to announce an extensive programme of tax cuts in its 1981 budget and subsequently pass the 1981 Economic Recovery Tax Act and the 1986 Tax Reform Act,⁶ as well as engage in a renewed expansion of military spending, precisely at a time when the US balance of payments deficit was growing as a result of increased demand for manufacturing and other imports which domestic firms could no longer profitably produce. It is therefore reasonable to conclude, following Konings (2007: 55), that as a result of the Volcker Shock, 'credit creation was not brought to a halt but rather embedded in a new institutional regime that served to redirect

⁶ As a result of these acts, corporate taxes as a proportion of corporate manufacturing profits dropped to 28 per cent on average between 1981 and 1990 from 46 per cent on average between 1965 and 1981 (Brenner 2003: 54).

credit flows in a way that increased rather than jeopardized US power in international finance'. Thirdly, in addition to engineering a domestic recession and diverting financial flows away from the 'real economy', rising interest rates also greatly increased the repayment costs for foreign governments that had contracted loans with variable interest rates from Wall Street during the period of petrodollar recycling in the 1970s. The increased availability of credit at this time had permitted flexible borrowing with no collateral and short loan maturities. For example, during the 1970s and early 1980s, 36 per cent of total US portfolio investment to Latin American countries was for unspecified purposes (Teivainen 2002: Ch. 3). The result was a series of financial crises which sparked a wave of sovereign defaults in Africa and Latin America during the 1980s, beginning with Mexico in 1982. This situation provided a context for the institutional renewal of the IMF and World Bank, which now became central players in international finance as agents of tricontinental 'structural adjustment'. The implementation of structural adjustment programmes effectively neutralized many 'Third World' countries' attempts to overcome problems of capital formation in their respective national economies through the implementation of import-substitution industrialization policies and the maintenance of a state-led system of high tariffs, multiple exchange rates, import controls, currency controls and subsidies to domestic producers. This neutralization was achieved through the use of loan 'conditionalities', which made the allocation of IMF funds to heavily indebted countries dependent upon the implementation of neoliberal economic reform packages—packages that allowed multinational corporations to purchase state-owned assets at knock-down prices as part of attempts to raise capital with which to repay private foreign creditors (Harvey 2005: 29; Soederberg 2004). On the other hand, some East Asian, and to a lesser extent, South Asian, countries were able to compete for a rising share of US markets for industrial products, and avoid the seller's market for loan capital by funding economic expansion through the reinvestment of domestic surpluses (Arrighi 2002: 22–3). However, the impact of the Volcker Shock on tricontinental countries was, on the whole, substantially negative.

12 Conclusions

A focal point of the preceding analysis—one which differentiates it from the vast majority of accounts of US power in the twentieth century—has been the attempt to think about the relationship between, on the one hand, money and finance, and on the other hand, economic

and political power. It has been shown that, far from being motivated by ‘financial repression’, the Bretton Woods international monetary and financial regime in fact formalized the dominant position of the US dollar as international money, and in doing so, enabled New York to emerge as the world’s premier financial centre. This process was subsequently extended and deepened through the development of the Euromarkets, which although geographically located in the UK, served to buttress and cement the demand for US dollars. It also laid the basis for the transformation of US hegemony in the last quarter of the twentieth century, as the attempts of the Federal Reserve to deal with the contradictions of corporate liberalism ultimately led it to restore the economically dominant position of financial over industrial capital. The Fed’s actions cannot be explained in terms a narrative emphasizing the shift away from a broad concern with ‘international interests’ to one more narrowly focused on ‘national interests’ within the US state. Rather, it is only possible to make sense of the Fed’s actions by situating US state institutions in their wider social and political context, as well as relating them to the changing domestic and international obligations of states in response to the reproduction requirements of an expanding capitalist world-economy. More specifically, the contradictions of the corporate liberal project required the Fed to attempt to reconcile the conflicting interests of both the industrial and financial fractions of capital—a managerial balancing act that could not be maintained indefinitely.

More generally, the present study has demonstrated the usefulness of a dialectical approach to studying social phenomena linking capitalism, the state and international relations within a unified whole. The added value of this focus is that it does not let an analysis of institutional configurations, such as those related to the functioning of the Bretton Woods international monetary and financial regime, obscure the extent to which developments taking place at the level of production, finance or the state prefigured the emergence of a new historical structure that was temporally out of phase with this aspect of reality, conceived in isolation (Cox 1987: 137). Furthermore, the broadly Marxist understanding of the relationship between states, markets and the international which has underpinned the above account does not overstate the regulatory capacity or domestic policy autonomy of states vis-à-vis internationalizing capital, but instead points to the contradictory structural coupling and co-evolution of the two, and the dilemmas faced by state managers as a result of this coupling. More concretely, the effects of domestic institutional transformations in American finance, such as those related to processes of disintermediation and securitization, have been shown to have had contradictory effects on the capacity of the US state to act internationally, simultaneously removing balance

of payments constraints and limiting state control over the circulation of private banking credit in the economy.

Conceptualized from the vantage point of the future development of United States hegemony after 1982, the interpretation laid out here also provides a much sounder basis for understanding the new historical structure which began to take form in the wake of the Volcker Shock. In particular, the flipside of the transformation of United States hegemony during the 1970s and early 1980s was a concomitant process of ‘financialization’. According to Arrighi (1994), the latter refers to a phase of capitalist expansion in which ‘an increasing mass of money capital “sets itself free” from its commodity form, and accumulation proceeds through financial deals’, while for Epstein (2005) it denotes ‘the increasing role of financial motives, financial markets, financial actors and financial institutions in the operations of the domestic and international economies’. What is common to each of these definitions is a focus on the changing relationship between financial transactions and the so-called ‘real economy’ of production in the long-run—a theme which has been central to the preceding analysis of the limits of US state autonomy in the context of attempts to balance financial sector profitability with the requirements of domestic manufacturing firms in an institutional environment characterized by the development of new forms of financial disintermediation and securitization. More specifically, analysts of financialization have highlighted the increasing prominence of phenomena such as the impact of shareholder value maximisation on the behaviour of capitalist firms, the decoupling of profits from investment, redistribution of income from labour to capital, a finance-oriented macroeconomic growth dynamic, and the heightened frequency and severity of financial crises (Guttmann 2008; Goldstein 2009; Laeven and Valencia 2008; Foster and Magdoff 2009; Krippner 2011). Along with other broad processes, such as ‘neoliberalization’ and ‘globalization’, financialization has become an increasingly central reference point in debates concerned with mapping the changing nature of capitalism in the decades after 1982. However, few studies have explicitly sought to link the phenomena associated with financialization to the changing capacities of state-society complexes, either in the United States or elsewhere, and this gap in the existing literature will no doubt prove to be a basis for future research on this topic.

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