PROOF

# Contents

# 1
# Demystifying Imperial Finance

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To a large extent, the discipline of international political economy (IPE) emerged in response to the perceived tendency of economic and financial globalization to undermine the power of nation-states, including that of the US state. The Bretton Woods system of fixed exchange rates was seen as the high point of American power in international finance. The decade of the 1970s saw international and domestic confusion, with several countries pursuing policies that were little to the liking of the US, while at home stagflation produced great regulatory perplexity. Not surprisingly, then, IPE scholars saw the end of Bretton Woods and the subsequent globalization of financial markets as signifying the decline of America's power in international finance. In this perspective, America's neoliberal policy turn during the late 1970s and early 1980s was seen as giving it some short-term advantages, but doing little to halt the decline: the huge inflows of capital that followed the artificially high interest rates were seen as serving to finance American indulgence (the hallmark of an imperial power in decline) as the American people and government borrowed more than ever before. While American banks continued their slide in the international rankings, and as the US's financial woes were complemented by troubles in other areas, theories of hegemonic decline flourished.

In fact, however, the American financial system continued to grow, American intermediaries innovated like never before, the US continued to attract large flows of capital, and American banks quickly returned to the top of the international league tables. By the last decade of the twentieth century it appeared that the crises of the 1970s and 1980s had done little lasting damage to the American financial system as a whole; the liquidity that the US state had pumped into the financial system after the 1987 stock market crash proved fairly effective, as did many of the (highly market-friendly) reforms. It was the US that was most active in opening up the economic and financial systems of other countries, and it was the US that benefited the most.

Under these circumstances, critical strands in IPE began to concentrate more on the sources of the asymmetrical effects of financial globalization. The globalization of financial markets, it was argued, had not only undermined the US-dominated institutions of Bretton Woods, but had also been the driving force behind the creation of more indirect, structural relations of power in which the US was much more favourably positioned than other countries. However, what has never really been sufficiently worked out in this literature were the precise ways in which US power relations, practices and institutions were embedded in expanding financial markets, i.e. the organic institutional linkages between the operation of global finance and the US state that were at the root of America's privileged position. Accordingly, the literature developed in critical IPE soon began to develop its own decline thesis: financial globalization had created extraordinary opportunities for the US, but those opportunities were no longer properly embedded in and supported by hegemonic institutional structures.

This volume is premised on the idea that attempts to analyse US power in terms of America's ability or inability to defy the laws of capitalist finance represent a dead-end. The chapters in this volume try to uncover the concrete institutional mechanisms and historical sources of what often appears to be a mysterious, ungrounded ability of the US state to manipulate and benefit from the operation of global financial markets. To that end, it recasts the problematic as one of American empire – a concept that serves to emphasize that the relations between financial globalization and the US state are internal and mutually constitutive. The global financial markets and the American state are not separate entities, to be articulated only after their respective constitution. Rather, they are connected through a dense web of organic institutional linkages.

Of course, American empire is qualitatively different from previous forms of imperialism, which were based on colonial rule and the geographical transplantation of the authority of the formal state. In such eras imperialism was obvious and visible in a way it is not when it assumes the form of a more subtle process of socio-economic interpenetration and informal political domination. But that makes it more rather than less important to adopt a perspective that emphasizes the imperial dimension of globalization: precisely because it appears as driven by neutral economic mechanisms, the expansion of practices and institutions acquires a tacit, indirect quality that often enhances its legitimacy and hides its imperial nature. For critics of neoliberal globalization and imperialism, the point is precisely to look behind the neutrality of appearances, i.e. to decode institutions and to conceptualize the patterns of economic power and imperial domination shaped through them.

The difficulty of grasping this elusive, tacit quality of American power[1] is borne out by the fact that it is rarely explicated in concrete historical terms; analyses are either theoretical and abstract or, when addressing historical questions, tend to focus once again on the more immediately visible aspects of American power. What tends to get lost is the distinctive nature of American international economic power. For it is precisely its hard-to-pin-down, indirect quality that allows American economic power to straddle the globe, and endows American policies with the leverage they possess – even when their military reach confronts hard limits (as in the Middle East today) and even when the roots of global financial crises (as with the current credit crisis, which hit in the summer of 2007 and has steadily assumed ever greater proportions) are directly traceable to US domestic financial markets.

Finance epitomizes the unique quality of American power. Pieces of paper bearing the imprint of the US state are accepted as valuable even in the world's most underdeveloped areas with only the most tenuous connections to the formal structures of the world economy. America's financial strength allows the US state to attract capital and run massive budget and payment deficits and as such constitutes a crucial element in the power of the American state at large. However, scholars have experienced considerable difficulty conceptualizing the sources of these phenomena and the mechanisms through which they are produced. They certainly are invisible to mainstream economics, premised as it is on the assumption of markets as neutral structures. But it seems that the foundations of America's financial power have been so thoroughly buried in the depoliticized realm of economic mechanisms that they tend to elude even those who study finance in its political aspects.

From the perspective offered here, the demise of Bretton Woods appears in a new light. The crisis of Bretton Woods coincided with the rapid expansion of American finance, both domestically and internationally. When the dam finally broke, US economic and political institutions proved eminently capable of exploiting the opportunities. The problems and regulatory contradictions of the 1960s and 1970s can be seen in this light as representing not the decline and malfunctioning of American finance but rather the difficulty of controlling and steering a financial system that was bursting at the seams. And the embrace of neoliberalism and monetarism in response to this is less fruitfully seen as a perverse reversion to misguided ideologies[2] than as a political turning point that reconfigured America's relation to the world and gave American capitalism a new lease of life.

It is not just that America's financial power seems to have outlived the Fordist age of undisputed industrial pre-eminence and current account surpluses. After all, Britain too reached its height of financial power after its decline as 'workshop of the world'. What is more extraordinary is the fact that the US benefited rather than suffered from its transformation from an international creditor to an international debtor. In contrast to what happened with Britain, America's ability to accumulate gigantic amounts of debt was not compromised by the fact that its debts to the world came to far exceed its assets. This was precisely because America's debts became a central element of the infrastructure of the international financial system. Thus, since the early 1980s, as ever more states became subject to the disciplinary pressures of global finance, the leverage of the US state seemed to grow and grow. While not ignoring the many challenges to American financial power, nor the contradictions that have attended its elaboration over time, the perspective presented in this volume seeks to offer a more comprehensive understanding of the various aspects of American financial power, and shows how it has been facilitated through the imperial penetration of global financial structures, including those of other states.

## Markets and states in international and comparative political economy

The existing IPE literature has remained too wedded to the discourse of states and markets to arrive at a satisfactory account of the growth of American financial power. More specifically, its continued reliance on an external conception of market power and state power has prevented it from fully conceptualizing the institutional linkages between global finance, American finance and the US state. Indeed, the very fact that the discipline of IPE has come to rely so heavily on the notion of 'globalization' in its analysis of international finance is testimony to the ideological strength of American empire and the failure of mainstream and even critical scholarship to penetrate fully beneath its appearances. And because the constitutive dimensions of US power in the operation of global financial markets are not fully theorized, the IPE literature remains prone to revised notions of hegemonic decline, according to which the globalization of financial markets must at some point inevitably overwhelm the capacities of the US state. A century ago, however, it would have been unthinkable for contemporaneous observers of international finance to write about financial markets as though their constitution was external to the power relations among states: there was little question that the mechanisms governing financial internationalization reflected the imperial interests of Britain as well as the specific institutional characteristics of British finance.

For a long time the most prominent account of the rise of US financial power was that presented by the neorealist theory of hegemonic stability (e.g. Kindleberger 1973; Gilpin 1987). Premised on the notion that a liberal international economic order requires political leadership for its stable reproduction, hegemonic stability theory understood the history of the international system in terms of the rise and fall of hegemonic nations, each overseeing the expansion of the world market. The absence of hegemonic leadership (i.e. the breakdown of British imperialism and American unwillingness to assume the mantle of hegemony) was seen as responsible for the instability and ultimate collapse of the international economy during the interwar period. After the Second World War, the US did assume the role of hegemon, ensuring the stable reproduction of the capitalist economy by embedding it in regulatory institutions. As the institutional expression of the ideology of 'embedded liberalism', the Bretton Woods system represented the high point of American financial leadership in this mode of thought.

Financial globalization, understood as a process without an author, was seen to upset this highly specific model of international power and thus came to be seen as the cause of American decline. It was the re-emergence of global finance from the late 1960s, now apparently untied from its state moorings, that was seen as marking the beginning of the loss of US hegemony, ultimately leading to the collapse of the Bretton Woods system. The American state's role in bringing this collapse about, reinforced by neoliberal and monetarist policies during the early 1980s, only further undermined America's long-term economic position and prospects and so its capacity to perform the role of hegemon.

Relying on the notion that there is a structural isomorphism in the way that hegemonic nations relate to the world economy, hegemonic stability theory conceptualized American leadership in international finance as a variation on the theme of a hegemonic nation taking responsibility for the reproduction of a liberal world order. This stark, abstract distinction between international economic structures and the national state and the disregard for the specific institutional linkages between them has drawn considerable criticism from mainstream and more critical IPE approaches alike. But especially within mainstream IPE, assertions concerning the relatedness of politics and economics have always been somewhat perfunctory and gratuitous. While Ruggie's analysis of how post-Second World War liberalism was embedded in multilateral institutions led him to the idea that perhaps the post-war global political economy should be understood not as a function of 'American *hegemony*' but rather as constituted by '*American* hegemony' (1992: 568), this notion has been studiously ignored by himself and others. Ultimately, any theory not actually focused on the institutional (re)construction of the global economic system by the US state and financial system will be incapable of grasping their transformative impact on the rules of the world economy and the qualitatively unique nature and distinctive dynamics of American power.

To be sure, within mainstream IPE the reaction to the problems of hegemonic stability theory has revolved around an engagement with the theme of institutions and regimes. While scattered evidence of some sort of resurgent protectionism during the 1970s might have seemed to confirm the predictions of neorealism, as the world emerged from the confusion of that decade it became clear that the end of American hegemony had not meant the return to economic nationalism or the breakdown of the world economy. The institutional regime on the basis of which the world economy functioned turned out to possess more internal coherence and it was thus concluded to be less singularly dependent on US hegemony than had been assumed. Neoliberal institutionalism (Keohane 1984) in particular proposed supplementing the neorealist focus on state power and national interest with attention to the network of international institutions that functioned to support international order and stability. Moreover, the broader theoretical strand with which neoliberal institutionalism can be said to be associated, i.e. regime theory, pays a great deal of attention to the 'softer' and more informal institutions that are necessary for the regulation and reproduction of economic structures (see Krasner 1982).

Yet these approaches understood institutions primarily in terms of the rather technical cooperation among non-market actors faced with processes of growing economic interdependence that in principle elude their grasp. In this sense, they never really challenged the external conception of states and markets. The greater concern with institutions never translated into a precise understanding of the historical, institutional and social dimensions of state power, and it especially continued to give short shrift to the concrete, organic institutional linkages between the American state and the operation of global financial markets (either at the formal-organization level or at a more informal social level). Accordingly, these approaches did nothing to challenge the thesis of American decline: globalization was still understood as undermining the power of the US state – and globalization was now treated as being capable of flourishing as it did so. In some ways the emphasis on the inherently stable nature of globalization processes made the analysis of neoliberal institutionalism and regime theory even more peculiarly depoliticized than hegemonic stability theory, with its visions of global economic breakdown, had ever been.

Thus, mainstream IPE has largely failed to get to the actual nature and quality of the 'political' that lies at the heart of the institutional constitution of the world economy. It was more critical approaches in IPE that sought to theorize this with the notion of 'structural power'. This shifted the focus from the behavioural aspects of state power (e.g. resources and direct control) towards its indirect, not immediately observable aspects. It proposed thinking about state power with reference to its broader socio-economic, class and institutional dimensions and sources (e.g. Strange 1988; Gill and Law 1989; Helleiner 1994; Arrighi 1994; Germain 1997). The resurgence of global finance outside the 'embedded liberal' structures of Bretton Woods was recognized not to have in any straightforward way undermined US power in international finance: while it was responsible for the demise of the US-dominated Bretton Woods institutions, it also laid the basis for a more market-based and structural form of power.

Critical IPE scholars thus tend to understand US structural power in terms of the ability of the US state to harness global markets to its international ambitions, but it remains unclear what institutions, techniques and relations are embedded in the very constitution of the international economy that reflect US power and bias its operation in favour of the US. Structural power, it seems, is primarily conceived as the power of capital or the market, and what remains underdeveloped are its organic linkages to the American state, i.e. the historical sources and institutional basis of the US's privileged relationship to processes of financial globalization. Consequently, there remains an element of uncertainty as to what determines whether the structural power of global finance will work for or against the purposes of the American state.

It is in this light that we can understand why the critical IPE literature has been prone to adopting some variation of the mainstream thesis of hegemonic decline. Even though it generally recognizes that for the time being the US retains a huge degree of financial power, this is not seen as having any inherent, organically privileged (if also often highly contradictory) relationship to processes of globalization. While it acknowledges that financial globalization has created extraordinary opportunities for the US, it fails to register sufficiently that the reasons for this are embedded in the basic structures of global finance. Eventually, it is argued, the American state will have to bow before the power of globalizing financial markets. America's ability to exploit the rest of the world through the dynamics of international finance is seen as marked by a somewhat ephemeral quality: the US is dominant yet its power is no longer firmly supported by hegemonic institutional structures.

Critical IPE's historical interpretation can perhaps be said to be rooted in conceptual tensions that are similar to those of mainstream IPE, i.e. the problem of articulating the economic and the political. It does not entirely succeed in overcoming the idea of markets and institutions as separate entities, leaving them to be articulated only after their respective constitution. In this sense, we can say that critical IPE authors often still adhere to an 'outside-in' approach (Panitch 1996, 2000) to the study of the relation between states and the global political economy: structural power tends to be conceived as market power and its connections to state power tend to be articulated in largely external terms. The historical sources and institutional bases of state power remain underdeveloped. It thus becomes difficult to theorize the internal connections and organic institutional linkages between the global economy and nation-states and the transformative effect of hegemonic power on the nature of global economic processes.

The approach adopted in this volume also takes its distance from the analysis of national political institutions offered by the new institutionalism and the associated 'varieties of capitalism' literature in comparative political economy (CPE). Its theoretical programme is quite different from that of IPE: instead of viewing states primarily as either the victims or authors of processes of financial globalization, it aims to show that states are entirely capable of maintaining their own institutional integrity and that the era of global capital has seen the persistence – indeed, flourishing – of a variety of national models (Zysman 1983; Hall and Soskice 2001). Yet in making this argument it shares with IPE a tendency to ontologize the distinction between markets and institutions as well as a focus on formal state institutions and organizations that is oblivious to the social sources of state capacity. Like IPE, this literature remains caught in a methodological perspective that separates and juxtaposes institutions and economic structures. The 'varieties of capitalism' literature in particular examines the institutionally generated ability of states to react and respond to the pressures of economic globalization, but does not consider how institutions shape these pressures in the first place. It does not understand the very formation of international economic imperatives as a process of institutionalization of power relations. As a consequence, the CPE literature is not very helpful in construing the organic institutional linkages between national states and globalizing financial markets (Coates 2005).

Overcoming the dichotomies and reifications of both IPE and CPE discourse requires more than mere theoretical assertion: it requires a research focus that guides our efforts to construing the constitutive impact of political power on the nature and dynamics of economic structures and the resulting linkages between economic dynamics and political power – connections that are often difficult to see as they have been covered under layers and layers of ideological representations. If we are to break with an outside-in mode of analysis, our historical analysis of the state should commence not after the political and economic have already been legally, ideologically and discursively constituted as separate entities but it should precisely trace and understand this process as itself a source of power. This is what this volume tries to do in its analysis of the American state. The key is to conceptualize and research how the institutional framework of American finance shaped the system of global finance in the first place as well as how the institutional linkages between the American state and the structural power embedded in the system of global finance have functioned to enhance the power of the US state.

But it is important to be clear on what such a perspective entails; opening up states and deconstructing the appearances of institutional authority is not something that one can do a little bit, just to add it on to an otherwise 'outside-in' or state-centric analysis. Thus, by examining the constitution of what Gramsci calls the 'integral state' rather than merely the state's formal institutions and official representations, the perspective adopted in this book differs from other approaches that also try to open up the state and pay more explicit attention to the role of particular institutions.[3] Once one looks beneath the state's official presentation of itself and questions its professed purposes and nature, a virtually endless network of connections becomes visible that organically ties formal institutions and organizational actors to lower-level institutions and practices, travelling all the way down to social relations as people experience them in their daily lives. This volume not only opens up the American state by examining actors and institutions such as the Treasury and the Federal Reserve, but also examines the way in which these institutions are connected to the constitution of social process and class relations both in the US and internationally. In other words, while this volume certainly engages with current debates about the role of the US state in the world at large, it does so not merely by looking for the ways those institutions are furthering the objectives of a narrowly conceived American 'national interest' but by paying ample attention to the social construction of the American state capacities that have become so actively engaged in the construction and management of a global capitalism.

## The meaning of crisis

As the second edition of this book goes to press, the world is still in the throes of the crisis that began in the 'subprime' sector of the US mortgage market. The exact scale and significance of such events can only be determined with the benefit of hindsight. Yet it has been clear for some time that this is a very severe crisis. While initial comparisons were with the 1987 stock market crash and the bursting of the dot-com bubble at the turn of the century, after the first year of the crisis comparisons with the Great Depression became increasingly common. Lending by commercial banks and mortgage providers took a serious hit, money market interest rates jumped, and even the operations of hedge funds and private equity funds – until recently seen to be operating in a rarefied world of high finance largely unaffected by events in the real world – were brought up short. Moreover, while the US and European monetary authorities have throughout been prepared to pump liquidity into the markets, this has had less effect than they hoped.

Almost as soon as the crisis struck in the summer of 2007, the crisis of the British mortgage bank Northern Rock made clear how quickly and effectively the tensions in a relatively small corner of the US financial markets were transmitted across the world. While very much a product of integrated global financial markets, the Northern Rock crisis produced images that negated pretty much everything that modern people have come to believe about the credibility of money and the seemingly autonomous operations of the financial system. The pictures of long lines of people waiting to empty their bank accounts seemed reminiscent of the bank failures of the Great Depression and peculiarly disconnected from the modern twenty-first-century financial system with its highly sophisticated techniques for risk and liquidity management.

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

However, it is precisely the understanding advanced in this volume of the historical evolution and present state of the American financial system and its global role that leads us to view with some scepticism strong claims concerning the disastrous outcome of the current crisis for the structural foundations of the global system of finance and America's position in it. If there is one thing that we especially hope the essays in this volume demonstrate, it is that the present system of global finance has been shaped so profoundly by specifically American institutions and practices that it will not do to evaluate the changes and transformations of this system on the basis of either an abstract, generic model of capitalism or mere extrapolations from conjunctural crises. American financial power did not latch on to an existing system of international finance but shaped this system to its core through a long history of imperial expansion. The decades-long build up of American power has been punctuated by multiple crises and instabilities, but this has primarily been a reflection of the depth of the transformation effected and the dynamism generated by American-style financial globalization. Crisis and instability are part and parcel of the dynamics of imperial finance and so are the difficulties experienced by the US state in managing them. Neither the crisis nor the managerial difficulties are likely to prove fatal unless they generate the kinds of social and political conflicts that shake the system to its core.

## The plan of the book

The chapters in Part I of this volume set the table by laying out the basic contours and sources of American financial power, and identifying the key aspects and moments of its growth and expansion. Chapter 2, by Panitch and Gindin, presents an interpretation of America's role in shaping the dynamics and institutions of post-Second World War global finance that differs in important respects from the analysis offered not only by mainstream but also by more critical approaches. The story told is one of Americanization, the processes of institutional penetration whereby distinctly American forms and practices have spread and often been willingly embraced in other countries. It discusses the various ways in which the American state and its financial system have shaped the political economies of other states as well as the rules that regulate the financial relations among them – and in the process the global financial system at large. Konings' essay (Chapter 3) goes back further into history to examine the social and historical roots of the US financial system and traces the way in which the institutions and practices of American finance have evolved and expanded to assume a central role in the making of the modern global financial system. He shows how the integrative capacity of the American financial system has been at the core of the mutually reinforcing dynamics between empire at home and empire abroad.

Part II moves on to a more concrete account of the modalities of American financial power through examinations of several of its institutional pillars and the processes through which these were constructed. The order of the chapters, in keeping with the inside-out approach outlined above, is configured so as to trace the process of Americanization: starting on the domestic side of things, they work their way back to the international realm and finally address traditional IPE themes informed by a much fuller understanding of the social and historical sources of American state power.

Thus Chapters 4 and 5 by Sarai and Newstadt, respectively, begin where Part I left off, presenting detailed accounts of the role of the two key state institutions in the construction of American financial power. In most IPE work the Treasury features as a crucial but largely unexamined actor. This leads, among other things, to a lack of awareness of the relation between its international and domestic roles. Sarai's account of the Treasury in the making of American finance explicitly situates its international role in this context. Newstadt's chapter provides a detailed examination of the Federal Reserve's evolving management of the expansionary dynamics of the American financial system in a relationship of functional interdependence with the re-emergence of global finance. He shows that the Fed's turn to monetarism was a crucial moment both in domestic financial management and in the reconfiguration of global financial power, and goes on to trace the Federal Reserve's emergence as the 'world central bank' in the very process of playing a more and more crucial role in domestic policy-making and global financial management.

The following three chapters trace the trajectory of Americanization processes into the global arena, beginning with Aquanno's examination (Chapter 6) of the fundamental role that US Treasury bills play in valuing risk in global financial markets and the historical role of American bond markets in the construction of imperial financial power. While the Eurodollar markets have always received considerable attention in the literature, these are not normally situated within the broader complex of bond markets – which is crucial to a full understanding of the institutional linkages between global financial markets and the American state. Sablowski's chapter on the Americanization of European finance (Chapter 7) tries to understand this process through a case study of the transition to a finance-led regime of accumulation in Germany. He shows that the transition towards a market-oriented financial system should not be seen as an effect of a generic process of globalization but is more usefully understood as involving the internalization by the German state and financial system of American regulations and practices. Chapter 8, also by Sablowski, addresses the international politics of accounting standards, and shows how, especially during the neoliberal era, an international accounting standard regime has been put into place that reflects the nature of American financial practices and tends to work to the advantage of the US state and American intermediaries.

The last two chapters in Part II focus on the more traditional IPE territory of international financial institutions (IFIs), and in doing so reveal how much the analysis of international regulation can be enriched by this volume's focus on the historical roots, social sources and institutional pillars of US imperial power. Felder's essay (Chapter 9) on the International Monetary Fund and the World Bank demonstrates how these institutions have from their very inception been shaped by American power, and traces their successive transformations in relation to the policies and strategies of the US state, revealing how, when it comes to the current era, IFIs do not just feature as agents of neoliberalism, but as agents of empire. At the same time she poses the challenging question of whether strategies of disengagement from the IFIs, as advanced by certain Latin American governments today, are likely to succeed. In Chapter 10 Rude brings Part II to a dramatically insightful close with an analysis of the development of capital adequacy rules for banks via the Basel I and II regimes for international bank regulation. He reveals how even the most technical and seemingly apolitical questions should in fact be seen as involving a crucial element of class and imperial power in the international arena. The structural effects of this in the sphere of international banking regulation result in asymmetrical financial discipline being placed on banks in the global South compared to those in the core capitalist states, very much to the advantage of the latter, and this has become an important element in the reproduction of imperial relations.

The two chapters in Part III draw together some of the lines of argument presented in the various essays and addresses their broader implications in terms of political contestation, crisis and democracy not only historically but right up to the present including the crisis that currently engulfs global capitalism. Chapter 11 theorizes the relationship between American empire and global finance by emphasizing the distinctive interaction between class and finance in the US, the mutually constitutive relationship between the state and financial markets, and the fact that processes of financial internationalization have entailed not only the *externalization* of American financial forms and practices but also the *internalization* of a variety of heterogeneous and geographically dispersed practices and relations into spaces structured by American rules and institutions. The critical assessment it offers in the final section of the political orientations and implications of IPE and CPE theorizations will hopefully help reveal how the kind of alternative analysis undertaken in this volume can usefully inform progressive and transformative political forces and strategies.

The new Chapter 12, written for this second edition, now closes the volume with a comprehensive analysis of the financial crisis that began in US mortgage markets in 2007, triggering what now threatens to become one of the deepest economic crises in capitalism's history. Based on the understanding of the dynamics of contemporary state and capital developed in this book, this chapter addresses the origins and contours of the crisis as it initially developed in the US, the dynamics of contagion as the crisis spread both domestically and internationally, and the remarkable strength of the dollar and unique role of US treasury bonds as international capital's safe haven. This chapter shows why explanations of the crisis exclusively centred on lax regulation, excessive speculation or global imbalances fail insofar as they ignore the intricate networks of institutional linkages between US empire and the political economy of global finance that have shaped the unfolding of events right down to their very core. The analysis advanced in this book, penetrating the illusions that neoliberal discourse has fostered, helps make sense of the massive state interventions during this crisis, while also offering a clearer perspective on why the American state's capacity to contain this crisis has been so severely tested. Given that the crisis continues to demonstrate on a daily basis the centrality of the US in the global system, this chapter's concluding discussion of the interaction between populism, class and state in the imperial heartland may help – amidst debates that range from nationalization to multilateral regulation – to frame and probe the key strategic question, of whether this crisis could provide a historic opening for radical perspectives that advance systemic alternatives to global capitalism.

## Notes

1. Hardt and Negri (2000) appropriately call this 'network power' and trace its roots to the American constitution, but they mistakenly see this quality of power in global capitalism as having been disconnected from the US via the process of globalization (Panitch and Gindin 2002a).
2. The tendency to give unwarranted causative force to the ideas of Hayek or Friedman in the emergence of neoliberalism can be seen in such diverse and sophisticated accounts as Helleiner (1994), Harvey (2005) and Klein (2007).
3. Broz (2005) and Broz and Hawes (2006), for instance, have tried to understand the US strategy in international finance by focusing on the role of the US Congress and its relations with international financial institutions, but the analysis is marked by its formalistic character and the lack of attention to the social sources of power and policy. For his part, Seabrooke (2001), engaging directly with debates on US structural power, has tried to develop a richer understanding of the domestic institutional sources of American financial power in terms of the 'interactive embeddedness' of Washington and Wall Street. Yet it is important that this notion not be treated too abstractly and employed too generally, and thus come to function as a substitute for, rather than as an invitation for an analysis of, the relations among private and public American financial institutions.

PROOF

# Index

PROOF

PROOF

PROOF