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ASSESSING THE TRANSFORMATION OF GLOBAL FINANCE

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The current crisis: a critical perspective

1. Introduction

"They say they won't intervene. But they will." This is how Robert Rubin, Bill Clinton's Treasury Secretary, responded to Paul O'Neill, the first Treasury Secretary under George W. Bush, who openly criticized his predecessor's interventions in the face of what Rubin called "the messy reality of global financial crises"(Rubin 2003: 297). The current dramatic conjuncture of financial crisis and state intervention has proven Rubin more correct than he could have imagined. But it also demonstrates why those, whether from the right or the left, who have only understood the era of neoliberalism ideologically – i.e. in terms of a hegemonic ideological determination to free markets from states – have had such a weak handle on discerning what really has been going on over the past quarter century. Clinging to this type of understanding will also get in the way of the thinking necessary to advance a socialist strategy in the wake of this crisis (Panitch/Konings 2008, 2008 forthcoming).

The fundamental relationship between capitalist states and financial markets cannot be understood in terms of how much or little regulation the former puts upon the latter. It needs to be understood in terms of the guarantee the state provides to property, above all in the form of the promise not to default on its bonds – which are themselves the foundation of financial markets' role in capital accumulation. But not all states are equally able, or trusted as willing (especially since the Russian Revolution), to honour this guarantee. The American state emerged in the 20th century as an entirely new kind of imperial state precisely because it took utmost responsibility for honouring this guarantee itself, while promoting a world order of independent nation states which the new empire would expect to behave as capitalist states. Since World War Two the American state has been not just the dominant state in the capitalist world but the state responsible for overseeing the expansion of capitalism to its current global dimensions and for organizing the management of its economic contradictions. It has done this not through the displacement but through the penetration and integration of other states. This included their internationalization, in the sense of their cooperation in taking responsibility for global accumulation within their borders, and their cooperation in setting the international rules for trade and investment.

It was the credibility of the American state's guarantee of property which ensured that, even amidst the Great Depression and business hostility to the New Deal's union and welfare reforms, private funds were readily available as loans to all the new public agencies created in that era. This was also why whatever liquid foreign funds that could escape the capital controls of other states in that decade made their way to New York, and so much of the world's gold filled the vaults of Fort Knox. And it is this which helps explain why it fell to the American state to take responsibility for making international capitalism viable again after 1945, with the fixed exchange rate for its dollar, as established at Bretton Woods, providing the sole global currency intermediary for gold. When it was established by the 1960s that those who held US dollars would have to suffer a devaluation of their funds through inflation, the fiction of a continuing gold standard was abandoned. The world's financial system was now explicitly based on the dollar as American-made 'fiat money', backed by an iron clad guarantee against the default of US Treasury bonds, which were now treated as being as 'good as gold'. Today's global financial order has been founded on this; and this is why US Treasury bonds are the fundamental basis from which calculations of value of all forms of financial instruments begin.

To be sure, the end of fixed exchange rates and of a dollar nominally tied to gold now meant that it had to be accepted internationally that the returns to those who held US assets would reflect the fluctuating value of US dollars in currency markets. But the commitment by the Federal Reserve and Treasury to an anti-inflation priority via the founding act of neoliberalism – the 'Volcker shock' of 1979 – assuaged that problem. (This 'defining-moment' of US-state intervention, like the current one, came in the run-up to a presidential election – i.e. before Reagan's election, and with bipartisan support and the support of industrial as well as financial capital in the US and abroad.) As the American state took the lead, by its example and its pressure on other states around the world, in giving priority to low inflation in a much stronger and ongoing commitment than before, this bolstered finance capital's confidence in the substantive value of lending; and after the initial astronomical interest rates produced by the Volcker shock, this soon made an era of low interest rates possible. Throughout the neoliberal era, the enormous demand for US bonds and the low interest paid on them has rested on this foundation. This was reinforced by the defeat of American trade unionism; by the intense competition in financial markets domestically and internationally; by financial capital's pressures on firms to lower costs through restructuring if they are to justify more capital investment; by the reallocation of capital across sectors and especially the provision of venture capital to support new technologies in new leading sectors of capital accumulation; and by the 'Americanization of finance' in other states and the consequent access to global savings this provided the American state.

Deregulation was more a consequence than the main cause of the intense competition in financial markets and its attendant effects, By 1990, this competition had already led to banks scheming to escape the reserve requirements of the Basel bank regulations by creating 'Structured Investment Vehicles' to hold these and other risky derivative assets. It also led to the increased blurring of the lines between commercial and investment banking, insurance and real estate in the finance and real estate sector sector of the US economy. Competition in the financial sector fostered all kinds of innovations in financial instruments, which allowed for high leveraging of the funds that could be accessed via low interest rates. This meant that there was an explosion in the effective money supply (this was highly ironic in terms of the monetarist theories that are usually thought to have founded neoliberalism). The competition to purchase assets with these funds replaced price inflation with the asset inflation that characterized the whole era. This was reinforced by the American state's readiness to throw further liquidity into the financial system whenever a specific asset bubble burst (while imposing austerity on economies in the South, much as the condition for the liquidity the IMF and World Bank provided to their financial markets at moments of crisis). All of this was central to the uneven and often chaotic making of global capitalism over the past quarter century, to the crises that have punctuated it, and to the active role of the US state in containing them.

Meanwhile, the world beat a path to US financial markets, not only because of the demand for Treasury bills, and not only because of Wall Street's linkages to US capital more generally, but also because of the depth and breadth of its financial markets – which had much to do with US financial capital's relation to the popular classes. The American Dream has always materially entailed promoting their integration into the circuits of financial capital, whether as independent commodity farmers, as workers whose paychecks were deposited with banks and whose pension savings were invested in the stock market, as consumers reliant on credit, and not least as heavily mortgaged home owners. It is the form that this incorporation of the mass of the American population took in the neoliberal context of competition, inequality and capital mobility, much more than the degree of supposed 'deregulation' of financial markets, that helps to explain the dynamism and longevity of the finance-led neoliberal era.

But it also helped trigger the current crisis – and the massive state intervention in response to it. The scale of the current crisis, which significantly has its roots in housing finance, cannot be understood without considering how the defeat of American trade unionism had played out by the first years of the 21st century. Constrained in what they could get from their labour for two decades, workers were drawn into the logic of asset inflation in the age of neoliberal finance, not only via the institutional investment of their pensions, but also via the one major asset they held in their own hands (or could aspire to hold) – their family home. It is significant that this went as far as the attempted integration, via financial markets, of poor African-American communities, so long the Achilles heel of working class integration into the American Dream. The roots of the subprime mortgage crisis, triggering the collapse of the mountain of repackaged and resold securitized derivative assets to hedge the risk involved in lending to poor people, lay in the way the anti-inflation commitment had since the 1970s ruled out the massive public expenditures that would have been required to even begin to address the crisis of inadequate housing in US cities.

As the 'Great Society' public expenditure programs of the 1960s ran up against the need to redeem the imperial state's anti-inflationary commitments, the financial market became the mechanism for doing this. In 1977, the government-sponsored mortgage companies, Freddie Mac and Fannie Mae (the New Deal public housing corporation privatized by Lyndon Johnson in 1968 before the word neoliberalism was invented), were required by the Community Reinvestment Act to sustain home loans provided by banks in poor communities. This effectively initiated that portion of the open market in mortgage-backed securities that was directed towards securing private financing for housing for low-income families. From modest beginnings, this only really took off with the inflation of residential real estate values after the recession of the early 1990s and the Clinton Administration's embrace of neoliberalism, leading to its reinforcement of a reliance on financial markets rather than public expenditure as the primary means of integrating working class, Black, and Hispanic communities. The Bush Republicans' determination to open up competition to sell and trade mortgages and mortgage-backed securities to all comers was in turn reinforced by the Greenspan Fed's dramatic lowering of real interest to almost zero in response to the bursting of the dot.com bubble and to 9/11. However, this was a policy that was only sustainable via the flow of global savings to the US, not least to the apparent Treasury-plated safety of Fannie Mae and Freddie Mac securities as government sponsored enterprises.

It was this long chain of events that led to the massive funding of mortgages, the hedging and default derivatives based on this, the rating agencies' AAA rating of them, and their spread onto the books of many foreign institutions. This included the world's biggest insurance company, AIG, and the great New York investment banks, whose own traditional business of corporate and government finance around the globe was now itself heavily mortgaged to the mortgages that had been sold in poor communities in the US and then resold many times over. The global attraction and strength of American finance was seen to be rooted in its depth and breadth at home, and this meant that when the crisis hit in the sub-prime security market of the heart of the empire, it immediately had implications for the banking systems of many other countries. The scale of the American government's intervention has certainly been a function of the consequent unraveling of the crisis throughout its integrated domestic financial system, yet it is also important to understand this in terms of its imperial responsibilities as the state of global capital.

This is why it fell to the Fed to repeatedly pump billions of dollars via foreign central banks into inter-bank markets abroad, where banks balance their books through the overnight borrowing of dollars from other banks. And an important factor in the nationalizations of Fannie Mae and Freddie Mac was the need to redeem the expectations of foreign investors (including the Japanese and Chinese central banks) that the US government would never default on its debt obligations. It is for this reason that even those foreign leaders such as the German finance Minister Peer Steinbrück, who have opportunistically pronounced the end of American 'financial superpower status', have credited the US Treasury for "acting not just in the US interests but also in the interests of other nations" (Benoit 2008). The US was not being altruistic in doing this, since not to do it would have risked a run on the dollar. Yet this is precisely the point. The American state cannot act in the interests of American capitalism without also reflecting the logic of American capitalism's integration with global capitalism both economically and politically. This is why it is always misleading to portray the American state as merely representing its 'national interest' while ignoring the structural role it plays in the making and reproduction of global capitalism.

2. A century of crises

It might be thought that the exposure of the state's role in today's financial crisis would once and for all rid people of the illusion that capitalists don't want their states involved in their markets, or that capitalist states could ever be neutral and benign regulators in the public interest of markets. Unfortunately, the widespread call today for the American state to 'go back' to playing the role of such a regulator reveals that this illusion remains deeply engrained, and obscures an understanding of both the past and present history of the relationship between the state and finance in the US.

In October 1907, near the beginning of the 'American Century', and exactly a hundred years before the onset of the current financial crisis, the US experienced a financial crisis that, for anyone living through it, would have seemed as great as today's. Indeed, there were far more suicides in that crisis than in the current one, as 'Wall Street spent a cliff-hanging year' which spanned a stock market crash, an 11 per cent decline in GDP, and accelerating runs on the banks (Chernow 1990: 121; Friedman/Schwarz 1971: 159; Studenski/Krooss 1965: 252). At the core of the crisis was the practice of trust companies to draw money from banks at exorbitant interest rates and, without the protection of sufficient cash reserves, lend out so much of it against stock and bond speculation that almost half of the bank loans in New York had questionable securities as their only collateral. When the trust companies were forced to call in some of their loans to stock market speculators, even interest rates which zoomed to well over 100 per cent on margin loans could not attract funds. European investors started withdrawing funds from the US.

Whereas European central banking had its roots in 'haute finance' far removed from the popular classes, US small farmers' dependence on credit had made them hostile to a central bank that they recognized would serve (a) bankers' interests. In the absence of a central bank, both the US Treasury and Wall Street relied on JP Morgan to organize the bailout of 1907. As Henry Paulson did with Lehman's a century later, Morgan let the giant Knickerbocker Trust go under in spite of its holding $50 million of deposits for 17,000 depositors ("I've got to stop somewhere", Morgan said). This only fuelled the panic and triggered runs on other financial firms, including the Trust Company of America (leading Morgan to pronounce that "this is the place to stop the trouble"). Using $25 million put at his disposal by the Treasury, and calling together Wall Street's bank presidents to demand they put up another $25 million "within ten or twelve minutes" (which they did), Morgan dispensed the liquidity that began to calm the markets (Chernow 1990: 123-125).

When the Federal Reserve was finally established in 1913, this was seen as Wilson's great Progressive victory over the unaccountable big financiers. As Chernow's monumental biography of Morgan put it, "from the ashes of 1907 arose the Federal Reserve System: everyone saw that thrilling rescues by corpulent old tycoons were a tenuous prop for the banking system" (Chernow 1990: 128). Yet the main elements of the Federal Reserve Bill had already been drafted by the Morgan and Rockefeller interests during the previous Taft administration; and although the Fed's corporatist and decentralized structure of regional federal reserve boards reflected the compromise the final Act made with populist pressures, its immediate effect was actually to cement the 'fusion of financial and government power' (Rothbard 1999; see also Livingston 1986). This was so both in the sense of the Fed's remit as the 'banker's bank' (that is, a largely passive regulator of bank credit and a lender of last resort) and also by virtue of the close ties between the Federal Reserve Bank of New York and the House of Morgan. William McAdoo, Wilson's Treasury Secretary, saw the Federal Reserve Act's provisions allowing US banks to establish foreign branches in terms of laying the basis for the US "to become the dominant financial power of the world and to extend our trade to every part of the world" (Broesamle/Gibbs McAdoo 1973: 129).

In fact, in its early decades, the Fed actually was "a loose and inexperienced body with minimal effectiveness even in its domestic functions" (Arrighi 1994: 272). This was an important factor in the crash of 1929 and in the Fed's perverse role in contributing to the Great Depression. It was class pressures from below that produced Franklin D. Roosevelt's union and welfare reforms, but the New Deal is misunderstood if it is simply seen in terms of a dichotomy of purpose and function between state and capitalist actors. The strongest evidence of this was in the area of financial regulation, which established a corporatist "network of public and semi-public bodies, individual firms and professional groups" that existed in a symbiotic relationship with one another distanced from democratic pressures (Moran 1991: 29). While the Morgan empire was brought low by an alliance of new financial competitors and the state, the New Deal's financial reforms, which were introduced before the union and welfare ones, protected the banks as a whole from hostile popular sentiments. They restrained competition and excesses of speculation, not so much by curbing the power of finance, but rather through the fortification of key financial institutions, especially the New York investment banks that were to grow ever more powerful through the remainder of the century. Despite the hostility of capitalists to FDR's union and welfare reforms, by the time World War Two began the New Dealers had struck what they themselves called their 'grand truce' with business (Brinkley 1995: 89-90). And even though the Treasury's Keynesian economists took the lead in rewriting the rules of international finance during World War Two (producing no little tension with Wall Street), a resilient US financial capital was not external to the constitution of the Bretton Woods order; it was embedded within it and determined its particular character.

In the postwar period, the New Deal regulatory structure acted as an incubator for financial capital's growth and development. The strong position of Wall Street was institutionally crystallized via the 1951 Accord reached between the Federal Reserve and the Treasury. Whereas during the War the Fed "had run the market for government securities with an iron fist" in terms of controlling bond prices that were set by the Treasury, the Fed now took up the position long advocated by University of Chicago economists and set to work successfully organizing Wall Street's bond dealers into a self-governing association that would ensure they had "sufficient depth and breadth" to make "a free market in government securities", and thus allow market forces to determine bond prices (Herzel/Leach 2001: 57-63). The Fed's Open Market Committee would then only intervene by 'leaning against the wind' to correct 'a disorderly situation' through its buying and selling of Treasury bills. Lingering concerns that Keynesian commitments to the priority of full employment and fiscal deficits might prevail in the Treasury were thus allayed: the Accord was designed to ensure that 'forces seen as more radical' within any administration would find it difficult, at least without creating a crisis, to implement inflationary monetary policies (Epstein/Shor 1995: 27; see also Dickens 1995, 1998).

Profits in the financial sector were already growing faster than in industry in the 1950s. By the early 1960s, the securitization of commercial banking (selling saving certificates rather than relying on deposits) and the enormous expansion of investment banking (including Morgan Stanley's creation of the first viable computer model for analyzing financial risk) were already in train. With the development of the unregulated Euromarket in dollars and the international expansion of US multi-national companies, the playing field for American finance was far larger than New Deal regulations could contain. Both domestically and internationally, the baby had outgrown the incubator, which was in any case being buffeted by inflationary pressures stemming from union militancy and public expenditures on the Great Society programs and the Vietnam War. The bank crisis of 1966, the complaints by pension funds that fixed brokerage fees discriminated against workers' savings, the series of scandals that beset Wall Street – all foretold the end of the corporatist structure of brokers, investment banks and corporate managers that had dominated domestic capital markets since the New Deal, culminating in Wall Street's 'Big Bang' of 1975. Meanwhile, the collapse of the Bretton Woods fixed exchange rate system, due to inflationary pressures on the dollar as well as the massive growth in international trade and investment, laid the foundation for the derivatives revolution by leading to a massive demand for hedging risk by trading futures and options in exchange and interest rates. The newly created Commodity Futures Trading Commission was quickly created less to regulate this new market than to facilitate its development (Bryan/Rafferty 2006; see also Melamed 1992: 43, 77-78). It was not so much neoliberal ideology that broke the old system of financial regulations as it was the contradictions that had emerged within that system.

If there was going to be any serious alternative to giving financial capital its head by the 1970s, this would have required going well beyond the old regulations and capital controls, and introducing qualitatively new policies to undermine the social power of finance. This was recognized by those pushing for the more radical aspects of the 1977 Community Reinvestment Act, who could have never foretold where the compromises struck with the banks to secure their loans would lead. Where the socialist politics were stronger, the nationalization of the financial system was, by the mid 1970s, being forcefully advanced as a demand. The left of the British Labour Party were able to secure the passage of a conference resolution to nationalize the big banks and insurance companies in the City of London, albeit with no effect on a Labour Government that embraced one of the IMF's first structural adjustment programs. In France, the Programme Commun of the late 1970s led to the Mitterand Government's bank nationalizations, but this was carried through in such a way that ensured that the structure and function of the banks were not changed in the process. In Canada, the directly elected local planning boards were proposed, which would draw on the surplus from a nationalized financial system to create jobs, were seen as the first step in a new strategy to get labour movements to think in ways that were not so cramped and defensive (Panitch/Gindin 1986). Such alternatives – strongly opposed by social democratic politicians who soon accommodated themselves to the dynamics of finance-led neoliberalism and the ideology of efficient free markets – were soon forgotten amidst the general defeat of labour movements and socialist politics that characterized the new era.

Financial capitalists took the lead as a social force in demanding the defeat of those domestic social forces they blamed for creating the inflationary pressures which undermined the value of their assets. The further growth of financial markets, increasingly characterized by competition, innovation and flexibility, was central to the resolution of the crisis of the 1970s. Perhaps the most important aspect of the new age of finance was the central role it played in disciplining and integrating labor. The industrial and political pressures from below that characterized the crisis of the 1970s could not have been countered and defeated without the discipline that a financial order built upon the mobility of capital placed upon firms. 'Shareholder value' was in many respects a euphemism for how the discipline imposed by the competition for global investment funds was transferred to the high wage proletariat of the advanced capitalist countries. New York and London's access to global savings simultaneously came to depend on the surplus extracted through the high rates of exploitation of the new working classes in 'emerging markets'. At the same time, the very constraints that the mobility of capital had on working class incomes in the rich countries had the effect of further integrating these workers into the realm of finance. This was most obvious in terms of their increasing debt loads amidst the universalization of the credit card. But it also pertained to how workers grew more attuned to financial markets, as they followed the stock exchanges and mutual funds that their pension funds were invested in, often cheered by rising stocks as firms were restructured without much thought to the layoffs involved in this.

Both the explosion of finance and the disciplining of labour were a necessary condition for the dramatic productive transformations that took place in the 'real economy' in this era. The leading role that finance has come to play over the past quarter century, including the financialization of industrial corporations and the greatest growth in profits taking place in the financial sector, has often been viewed as undermining production and representing little else other than speculation and a source of unsustainable bubbles. Yet this fails to account for why this era – a period longer than the 'golden age' – has lasted so long. It also ignores the fact that this has been a period of remarkable capitalist dynamism, involving the deepening and expansion of capital, capitalist social relations and capitalist culture in general, including significant technological revolutions. This has been the case especially for the US itself, where financial competition, innovation, flexibility and volatility have accompanied the reconstitution of the American material base at home and its expansion abroad. Overall, the era of finance-led neoliberalism has experienced a rate of growth of global GDP that compares favourably with most earlier periods over the last two centuries (Maddison 2001: 265).

It is, in any case, impossible to imagine the globalization of production without the type of financial intermediation in the circuits of capital that provides the means for hedging the kinds of risks associated with flexible exchange rates, interest rates variations across borders, uncertain transportation and commodity costs, etc. Moreover, as competition to access more mobile finance intensified, this imposed discipline on firms (and states), which forced restructuring within firms and reallocated capital across sectors, including via the provision of venture capital to the new information and bio-medical sectors which have become leading arenas of accumulation. At the same time, the very investment banks which have now have come undone in the current crisis have spread their tentacles abroad for three decades through their global role in M&A and IPO activity, during the course of which relationships between finance and production, including their legal and accounting frameworks, were have been radically changed around the world in ways that have increasingly resembled American patterns. This was reinforced by the bilateral and multilateral international trade and investment treaties, which were increasingly concerned with opening other societies up to New York's and London's financial, legal and accounting services.

3. The American state in crisis

The era of neoliberalism has been one long history of financial volatility, with the American state leading the world's states in intervening in a series of financial crises. Almost as soon as he was appointed to succeed Volcker as head of the Fed, Greenspan immediately dropped buckets of liquidity on Wall Street in response to the 1987 stock market crash. In the wake of the Savings and Loan crisis, the public Resolution Trust Corporation was established to buy up bad real estate debt (this is the model being used for today's bail-out). In Clinton's first term, Wall Street was saved from the consequences of bond defaults during the Mexican financial crisis in

1995 by Rubin's use of the Stabilization Exchange Fund (this Treasury kitty, established during the New Deal, has once again been called into service in today's crisis). During the Asian crisis two years later, Rubin and his Under-Secretary Summers flew to Seoul to dictate the terms of the IMF loan. And in 1998 (not long after the Japanese government nationalized one of the world's biggest banks), the head of the New York Federal Reserve summoned the CEO's of Wall Street's leading financial firms and told them they would not be allowed to leave the room (reminiscent of Morgan in 1907) until they agreed to take over the insolvent hedge fund, Long-Term Capital Management. These quick interventions by the Fed and Treasury, most of them without waiting upon Congressional pressures or approval, showed they were aware of the disastrous consequences which the failure to act quickly to contain each crisis could have on both the domestic and global financial system.

When the current financial crisis broke out in the summer of 2007, the newly appointed Chairman of the Fed, Ben Bernanke, could draw on his academic work as an economist at Princeton University on how the 1929 crash could have been prevented (Bernanke 2000), and Treasury Secretary Henry Paulson could draw on his own illustrious career (like Rubin's) as a senior executive at Goldman Sachs. Both the Treasury and Federal Reserve staff worked closely with the Securities Exchange Commission and Commodity Futures Trading Commission under the rubric of the President's Working Group on Financial Markets which had been set up in 1988, and known on Wall Street as the 'Plunge Protection Team'. Through the fall of 2007 and into 2008, the US Treasury would organize, first, a consortium of international banks and investment funds, and then an overlapping consortium of mortgage companies, financial securitizers and investment funds, to try to get them to take concrete measures to calm the markets. The Federal Reserve acted as the world's central bank by repeatedly supplying other central banks with dollars to provide liquidity to their banking systems, while doing the same for Wall Street. In March 2008 the Treasury – after guaranteeing to the tune of $30 billion JP Morgan Chase's takeover of Bear Stearns – issued its Blueprint for a Modernized Financial Regulatory Structure, especially designed to extend the Fed's oversight powers over investment banks.

Most serious analysts thought the worst was over, but by the summer of 2008, Fannie Mae and Freddie Mac, whose reserve requirements had been lowered in the previous years to a quarter of that of the banks, were also being undone by the crisis; by September so were the great New York investment banks. The problem they all faced was that there was no market for a great proportion of the mortgage-backed assets on their books. As the subprime mortgage phenomenon was reaching its peak in 2005, Greenspan was claiming that "where once more-marginal applicants would simply have been denied credit, lenders are now able to quite efficiently judge the risk posed by individual applicants and to price that risk appropriately" (Greenspan 2005). However, financial capital's risk evaluation equations unraveled in the crisis of 2007–2008. And, as they did, so did financial markets' ability to judge the worth of financial institutions balance sheets. Banks became very reluctant to give each other even the shortest-term credits. Without such inter-bank credit, any financial system will collapse. The unprecedented scale of interventions in September 2008 can only be understood in this context. They involved pumping additional hundreds of billions of dollars into the world's inter-bank markets; the nationalizations of Fannie Mae, Freddie Mac and AIG; the seizure and fire sale of Washington Mutual (to prevent the largest bank failure in US history); a blanket guarantee on the $3.4 trillion in mutual funds deposits; a ban on short-selling of financial stocks; and Paulson's $700 billion TARP ('troubled asset relief program') bailout to take on toxic mortgage assets.

Amidst the transformation, in the course of a week, of New York's investment banks through a dramatic series of bankruptcies and takeovers, the Treasury undertook to buy virtually all the illiquid assets on the balance sheets of financial institutions in the US, including those of foreign owned firms. We now know that Barnanke had warned Paulson a year before that this might be necessary, and Paulson had agreed: "I knew he was right theoretically," he said. "But I also had, and we both did, some hope that, with all the liquidity out there from investors, that after a certain decline that we would reach a bottom" (Baker 2008b). Nevertheless, the private market has no secure bottom without the state. The Fed and Treasury needed to act not only as lender of last resort, but also, by taking responsibility for buying and trying to sell all those securities that couldn't find a value or market in the current crisis, as market maker of last resort (Buiter 2008).

Is it over? This is the question on most people's minds today. Yet what does this question mean? The way this question is posed, especially on the left, usually conflates three distinct questions. First, is the Paulson program going to end the crisis? Second, does this crisis, and both the state and the popular reaction to it, spell the end of neoliberalism? Third, are we witnessing the end of US hegemony?

There is no way of knowing how far this financial crisis, the most severe since the Great Depression, might still have to go. On the one hand, despite the grave condition of the (former) 'Big Three' in the US auto sector, the overall health of US non-financial corporations going into the crisis – as seen in their relatively strong profits, cash flow and low debt – has been an important stabilizing factor, not least in limiting the fall in the stock market. The growth of US exports at close to double-digit levels annually over the past five years reflects not only the decline in the dollar but the capacity of American corporations to take advantage of this. That said, the seizing up of inter-bank and commercial paper markets even after Paulson's program was announced leaves big questions about whether it will work. And even if it does, unwinding such a deep financial and housing crisis is going to take a long time. As of now, foreclosures are still rising, housing starts and house prices are still falling, and the financial markets have not yet calmed. Moreover, it has been clear for over a year that the US economy will fall into – or already is in – a recession.

The immediate problem in this respect is where consumer demand will come from. Credit is obviously going to be harder to obtain, especially for low income groups, and with the end of housing price inflation closing off the possibility of secondary mortgages, and especially reinforcing concerns about retirement alongside the devaluation of pension assets and even company cutbacks of benefits, most workers will not only be less able to spend, but also inclined to try to save rather than spend. To the extent that a great deal of US consumption in the neoliberal era was also spurred on by the enormous appetites of the rich, this is obviously also going to now be restrained. Fiscal stimulus programs are unlikely to be enough to compensate for this, especially given the nervousness over the impact of the bailouts on the fiscal deficit, the size of the US public debt and the value of dollar, and hence over whether low interest rates can be maintained. To the extent that global growth through the neoliberal era was dependent on credit-based mass consumption in the US, the impact of this being cut back will have global implications, including on US exports. This is why the current recession is likely to be deeper and longer than the last significant one in the early 1990s, and maybe even than the severe recession with which neoliberalism was launched in the early 1980s.

Yet, when it comes to the question of whether this crisis spells the end of neoliberalism, it is more important than ever to distinguish between the understanding of neoliberalism as an ideologically-driven strategy for free markets from states on the one hand, and on the other a materially-driven form of social rule which has involved the liberalization of markets through state intervention and management. While it will be now hard for politicians and even economists to uncritically defend free markets and further deregulation, it is not obvious – as exemplified by the concentration by both candidates on tax and spending cuts in the first presidential debate of 2008 – that the essence of neoliberal ideology has been decisively undermined, as it was not by the Savings and Loan crisis at the end of the 1980s, the Asian and LTCM crises at the end of the 1990s, or the post-dot.com Enron and other scandals at the beginning of the century. On the more substantive definition of neoliberalism as a form of social rule, there clearly is going to be more regulation. However, it is by no means clear yet how different it will be from the Sarbanes-Oxley type of corporate regulation passed at the beginning of the century to deal with 'Enronitis' (Soederberg 2008). Nevertheless, it is possible that a new form of social rule within capitalism may emerge to succeed neoliberalism. But, given how far subordinate social forces need to go to reorganize effectively, it is most likely that the proximate alternatives to neoliberalism will either be a form of authoritarian capitalism or a new form of reformist social rule that would reflect only weak class realignment.

Nevertheless, whatever the answers to the questions concerning the extent of the crisis or the future of neoliberalism, this does not resolve the question of 'is it over?' as it pertains to the end of US hegemony. Just how deeply integrated global capitalism has become by the 21st century has been obvious from the way the crisis in the heartland of empire has affected the rest of the globe, quickly putting facile notions of decoupling to rest. The financial ministries, central banks and regulatory bodies of the advanced capitalist states at the centre of the system have cooperated very closely in the current crisis. That said, the tensions that earlier existed in this decade over Iraq have obviously been brought back to mind by this crisis. European criticisms of the Bush administration's inadequate supervision of finance, including the accusation that US leaders ignored their pleas for more regulation during the last G8 meetings, may seem hypocritical in light of how far they opened their economies to the Americanization of their financial systems, but it is nevertheless significant in terms of their expectation that the US play its imperial role in a less irresponsible or incompetent manner.

This is reminiscent of the criticisms that were raised during the 1970s, which were an important factor in producing the policy turn in Washington that led to the Volcker shock as the founding moment of neoliberalism. US hegemony was not really challenged then; the US was being asked to act responsibly to defeat inflation and validate the dollar as the global currency and thus live up to its role as global leader. With the economic integration and expansion of the EU and the emergence of the euro, many would like to think that Europe has the capacity to replace the US in this respect. But this is not realistic.

If and when the Chinese state will develop such capacities to assume the mantle of hegemonic leadership of the capitalist world, remains to be seen. Yet, for the interim, a sober article in China's business newspaper, the Oriental Morning Post, reflects a better understanding of the real world than some of those among the Western left who look to China as an alternative hegemon: "Bad news keeps coming from Wall Street. Again, the decline of U.S. hegemony became a hot topic of debate. Complaining or even cursing a world of hegemony brings excitement to us. However, faced with a decline of U.S. hegemony, the power vacuum could also be painful. We do not like hegemony, but have we ever thought about this problem when we mocked its decline [...] at present the world's financial system does not exist in isolation. It is the result of long-term historical evolution, closely associated with a country's strength, its openness, the development of globalization, and the existing global economic, political patterns. The relationship can be described as 'the whole body moving when pulling one hair' [...]. The subprime crisis has affected many foreign enterprises, banks, and individuals, which in itself is again a true portrayal of the power of the United States [...] Therefore, the world's problems are not merely whether or not the United States are declining, but whether any other country, including those seemingly solid allies of the United States, will help bear the load the U.S. would lighten" (Ding 2008).

For the time being, what is clear is that no other state in the world – not only today, but perhaps ever – could have experienced such a profound financial crisis, and such a enormous increase in the public debt without an immediate outflow of capital, a run on its currency and the collapse of its stock market. That this has not happened reflects the widespread appreciation among capitalists that they sink or swim with Wall Street and Washington. D.C. But it also reflects the continuing material underpinnings of the empire. Those who dwell on the fact that the American share of global GDP has been halved since World War Two not only underplay the continuing global weight of the American economy in the world economy, but fail to understand, as American policy makers certainly did at the time, that the diffusion of capitalism was an essential condition for the health of the American economy itself. Had the US tried to hold on to its postwar share of global GNP, this would have stopped capitalism's globalizing tendencies in its tracks. This remains the case today. Not only is the US economy still the largest by far, but it also hosts the most important new high-tech arenas of capital accumulation, and leads the world by far in research and development, while American MNCs directly and indirectly account for so large a proportion of world-wide employment, production and trade.

Moreover, in spite of the fact that the New York investment banks have come undone in this crisis, the functions of American investment banking are going to continue. Philip Augar (the author of the perceptive insider account of the investment banking industry, *The Greed Merchants*), while affirming that "the eight days between Sunday September 14 and Sunday September 21, 2008 […] [were] part of the most catastrophic shift among investment banks since the event that created them, the Glass Steagall Act of 1933", goes on to argue that "[…] it is likely that investment banks will exist as recognizable entities within their new organizations and investment banking as an industry will emerge with enhanced validity […] While they are licking their wounds, the investment banks may well eschew some of the more esoteric structured finance products that have caused them such problems and refocus on what they used to regard as their core business. While we may have seen the death of the investment bank I would be very surprised if we have seen the death of investment banking as an industry" (Augar 2008; see also Augar 2006).

Indeed, the financial restructuring and reregulation that is already going on as a result of the crisis is in good part a matter of establishing the institutional conditions for this, above all through the further concentration of financial capital by completing the integration of commercial and investment banking. The repeal of Glass-Steagall at the end of the last century was more a recognition of how far this had already gone than an initiation of it; and the Treasury's Blueprint for a Modernized Financial Regulatory Structure, announced in March 2008 but two years in preparation, was designed to create the regulatory framework for seeing that integration through. There is no little irony in the fact that, whereas the crisis of the 1930s led to the distancing of investment banking from access to common bank deposits, the long-term solutions being advanced to address the insolvencies of investment bankers today is to give them exactly this access.

4. It ain't over until it's made over

The massive outrage against bailing out Wall Street today is rooted in a tradition of populist resentment against New York bankers which has persisted alongside the ever increasing integration of the 'common man' into capitalist financial relationships. American political and economic elites have had to accommodate to – and at the same time overcome – this populist political culture. This could be seen at work this September when Henry Paulson declared before the House Financial Services Committee, as he tried to get his TARP plan through Congress, that "the American people are angry about executive compensation and rightfully so" (Stout 2008). This was rather rich given that he had been Wall Street's highest paid CEO, receiving $38.3m in salary, stock and options in the year before joining the Treasury, plus a mid-year $18.7 bonus on his departure as well as an estimated $200 million tax break against the sale of his almost $500 million share holding in Goldman Sachs (as was required to avoid conflict of interest in his new job) (The Guardian 26.9.2008). The accommodation to the culture of populism is also seen at work in both McCain's and Obama's campaign rhetoric against greed and speculation, despite the fact that Wall Street investment banks are among their largest campaign contributors and supply some of their key advisers.

This should not be reduced to hypocrisy. In the absence of a traditional bureaucracy in the American state, leading corporate lawyers and financiers have moved between Wall Street and Washington ever since the age of the 'robber barons' in the late 19th century. Taking time off from the private firm to engage in public service has been called the 'institutional schizophrenia' that links these Wall Street figures as 'double agents' to the state. While acting in one sphere to squeeze through every regulatory loophole, they act in the other to introduce new regulations as "a tool for the efficient management of the social order in the public interest" (Gordon 1984: 53, 58, 65-66). It is partly for this reason that the long history of popular protest and discontent triggered by financial scandals and crises in the US, far from undermining the institutional and regulatory basis of financial expansion, have repeatedly been pacified through the processes of further "codification, institutionalization and juridification" (Moran 1991: 13). And, far from buckling under the pressure of popular disapproval, financial elites have proved very adept at not only responding to these pressures but also using them to create new regulatory frameworks that have laid the foundations for the further growth of financial capital as a class faction and as a lucrative business.

This is not a matter of simple manipulation of the masses. Most people have a (however contradictory) interest in the daily functioning and reproduction of financial capitalism because of their current dependence on it: from access to their wages and salaries via their bank accounts, to buying goods and services on credit, to paying their bills, to realizing their savings – and even to keeping the roofs over their heads. This is why, in acknowledging before the Congressional hearings on his TARP plan to save the financial system that Wall Street's exorbitant compensation schemes are 'a serious problem', Paulson is also appealing to people's sense of their own immediate interests when he adds that "we must find a way to address this in legislation without undermining the effectiveness of the program" (Stout 2008). Significantly, both the criticisms and the reform proposals now coming from outside the Wall Street-Washington elite reflect this contradiction. The attacks on the Fed's irresponsibility in allowing subprime mortgages to flourish, poses the question of what should have been said to those who wanted access to the home-ownership dream, given that the possibility of adequate public housing was (and remains) nowhere on the political agenda. No less problematic, especially in terms of the kind of funding that would be required for this, is the opposition to Paulson's TARP program in terms of protecting the taxpayer, presented in a pervasive populist language with neoliberal overtones. It was this definition of the problem in the wake of Enron that led to the shaming and convictions of the usual suspects, while Bush and Republican congressmen were elected and reelected.

At the same time, many of the criticisms and proposed reforms today often display an astonishing naiveté about the systemic nature of the relationship between state and capital. This was seen when an otherwise excellent and informative article in the New Labour Forum founded its case for reform on the claim that "Government is necessary to make business act responsibly. Without it, capitalism becomes anarchy. In the case of the financial industry, government failed to do its job, for two reasons – ideology and influence-peddling" (Atlas et al. 2008). It is this perspective that also perhaps explains why most of the reform proposals being advanced are so modest, in spite of the extent of the crisis and the popular outrage. This is exemplified by those proposals advanced by one of the US left's leading analysts of financial markets: "The first target for reform should be the outrageous salaries drawn by the top executives at financial firms […] While we don't want a chain reaction of banking collapses on Wall Street, the public should get something in exchange for Bernanke's generosity. Specifically, he can demand a cap on executive compensation (all compensation) of $2 million a year, in exchange for getting bailed out […] The financial sector performs an incredibly important function in allocating savings to those who want to invest in businesses, buy homes or borrow money for other purposes […] The best way to bring the sector into line is with a modest financial transactions tax […] [on] options, futures, credit default swaps, etc." (Baker 2008a).

This is a perfect example of thinking inside the box: explicitly endorsing two million dollar salaries and the practices of deriving state revenues from the very things that are identified as the problem. Indeed, even proposals for stringent regulations to prohibit financial imprudence mostly fail to identify the problem as systemic within capitalism. At best, the problem is reduced to the system of neoliberal thought, as though it was nothing but Hayek or Friedman, rather than a long history of contradictory, uneven and contested capitalist development that led the world to 21st century Wall Street.

The scale of the crisis and the popular outrage today provide a historic opening for the renewal of the kind of radical politics that advances a systemic alternative to capitalism. It would be a tragedy if a far more ambitious goal than making financial capital more prudent did not now come back on the agenda. In terms of immediate reforms and the mobilizations needed to win them – and given that we are in a situation when public debt is the only safe debt – this should start with demands for vast programs to provide for collective services and infrastructures that not only compensate for those that have atrophied but meet new definitions of basic human needs and come to terms with today's ecological challenges.

Such reforms would soon come up against the limits posed by the reproduction of capitalism. This is why it is so important to raise not merely the regulation of finance but the transformation and democratization of the whole financial system. This would have to involve not only capital controls in relation to international finance but also controls over domestic investment, since the point of taking control over finance is to transform the uses to which it is now put. And it would also require much more than this in terms of the democratization of both the broader economy and the state. It is highly significant that the last time the nationalization of the financial system was seriously raised, at least in the advanced capitalist countries, was in response to the 1970s crisis by those elements on the left who recognized that the only way to overcome the contradictions of the Keynesian welfare state in a positive manner was to take the financial system into public control (Minns 1982). Their proposals were derided as Neanderthal not only by neoliberals but also by social democrats and post-modernists.

We are still paying for their defeat. It is now necessary to build on their proposals and make them relevant in the current conjuncture. Of course, without rebuilding popular class forces through new movements and parties this will fall on empty ground. But crucial to this rebuilding is to get people to think ambitiously again. However deep the crisis and however widespread the outrage, this will require hard and committed work by a great many activists. The type of facile analysis that focuses on 'it's all over' – whether in terms of the end of neoliberalism, the decline of the American empire, or even the next great crisis of capitalism – is not much use here insofar as it is offered without any clear socialist strategic implications. It ain't over till it's made over.

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Abstracts

In this article the authors stress the general centrality of the state for the functioning of the financial sector. This centrality is essential in times of crisis as well as in 'normal' times, but it becomes more visible in the moment of a crisis. Building on this premise the authors analyse under which conditions and in which form the current crisis can be overcome. They come to

the conclusion that the crisis – although severe – does not necessarily mean the end of neoliberalism and even less so the end of US hegemony. However, against the background of the current crisis-prone development there is the possibility that social inconsistencies could come to a head. This could be the basis of policies which might entail a radical transformation of the financial sector as well as the beginning of structural economic changes.

In diesem Artikel betonen die Autoren zunächst die generelle Zentralität des Staates für die Funktionsfähigkeit des Finanzsektors. Diese zentrale Rolle des Staates ist nicht nur in Krisenzeiten, sondern auch in ‚normalen' Zeiten gegeben, obgleich sie in der Krise sichtbarer wird. Darauf aufbauend wird analysiert, unter welchen Bedingungen und in welcher Form die gegenwärtige Krise überwunden werden kann. Sie kommen zu dem Schluss, dass die Krise – auch wenn sie sehr tief ist – nicht das Ende des Neoliberalismus bedeuten muss. Für noch unwahrscheinlicher halten sie, dass die gegenwärtige Wirtschaftskrise zu einem Ende der US-Hegemonie führen wird. Dennoch wird es für möglich erachtet, dass sich vor dem Hintergrund der krisenhaften Entwicklungen gesellschaftliche Widersprüche zuspitzen. Diese könnten die Basis für Politiken bilden, die eine radikale Transformation des Finanzsektors beinhalten und darüber hinaus strukturelle ökonomische Veränderungen einleiten könnten.

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