If a single root cause has predominated in explanations of the current global financial crisis, it is ‘deregulation’.* Lack of state oversight of financial markets is widely cited—not only in the opinion columns of the financial press, but by left-wing commentators, too—as having permitted the perilous over-leveraging of financial institutions, based on weakly securitized debt, that has brought about the present debacle. This diagnosis of the cause of the crisis also steers towards a particular solution: if deregulation allowed markets to get out of control, then we must look to re-regulation as the way out. Thus Will Hutton sees the subprime crisis as the result of decades of laissez-faire policies, resulting in excessive financial growth and instability; now that ‘Anglo-Saxon financial capitalism has suffered a fundamental reverse’, he looks forward to the return of Keynesian regulatory policies. Eric Helleiner also hopes that ‘the crisis may be pushing us toward a more decentralized and re-regulated global financial order . . . more compatible with diverse forms of capitalism’ that would ‘sit less comfortably with an entirely liberal set of rules for the movement of capital and financial services’. By contrast, Robin Blackburn’s analysis of the crisis makes the point that ‘financialization was born in a quite heavily regulated world’, and he questions whether ‘more and better regulation’, even while needed, will ‘be enough’. But his account of the crisis mainly emphasizes rampant financial innovation in an unregulated shadow banking system.¹

For many authors, this focus on ‘deregulation’ in explaining the current crisis is closely associated with a Polanyian understanding of the shifting boundaries between state and market, which would see markets as having become ‘disembedded’ from the state. From this perspective, we may now be witnessing the start of a movement whereby the market will
be re-embedded in public norms and regulatory institutions. As Robert Wade recently wrote in these pages:

Governmental responses to the crisis suggest that we have entered the second leg of Polanyi’s ‘double movement’, the recurrent pattern in capitalism whereby (to oversimplify) a regime of free markets and increasing commodification generates such suffering and displacement as to prompt attempts to impose closer regulation of markets and de-commodification.¹

The central problem with this perspective is the tendency to analyse the financial dynamics of the past decades within the terms of that era’s hegemonic self-representation—that is, through the key tenets of neoliberal ideology: the retreat of public institutions from social and economic life, and the return to a pre-Keynesian era of non-intervention. But it was only on the most stylized and superficial reading that the state could be seen to have withdrawn. Neoliberal practices did not entail institutional retreat so much as the expansion and consolidation of the networks of institutional linkages that sustained the imperial power of American finance. Of course it has become commonplace to assert that states and markets should not be seen as really counter-posed; but such claims have tended to remain rather perfunctory, and most research has remained guided by the notion that financial expansion has been accompanied by the attenuation of the state. A concrete account of the many ways in which the US state and financial markets are mutually constituted must necessarily involve an awareness that the practical effects of neoliberal ideologies are not well represented in those discourses themselves. Neoliberalism and financial expansion did not lift the market out of its social context; rather, they embedded financial forms and principles more deeply in the fabric of American society.

This is not to deny that changes in the mode of regulation played an important role in the developments that led to the crisis, but rather to argue that these should be situated within a wider context of financialized class relations. ‘Deregulation’ was determined not so much by ideological

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¹ This article is adapted from ‘The Political Economy of the Subprime Crisis’, co-authored with Sam Gindin and Scott Aquanno, the new concluding chapter of Panitch and Konings, eds, American Empire and the Political Economy of Global Finance, second edition, forthcoming from Palgrave.


commitment to neoliberalism as by a series of pragmatic decisions, usually driven by the exigencies of the moment, to remove legal barriers to financial dynamics that had already gathered decisive momentum within the old form of regulation; such was largely the case with the Clinton Administration’s repeal of the Glass–Steagall Act. Moreover, even with the removal of some restrictions, it was still the case that:

American financial markets are almost certainly the most highly regulated markets in history, if regulation is measured by volume (number of pages) of rules, probably also if measured by extent of surveillance, and possibly even by vigour of enforcement.3

‘Beneficial’ regulations

Rather than seeing the relation between state and market in the neoliberal era in terms of deregulation, it may be more useful to trace the ways in which financialization developed through both old and new regulatory bodies. The securitization of commercial banking and expansion of investment banking was already visible in the 1960s, with the growth of the market for Eurodollars and the creation of the first viable computer models for analysing financial risk. The banking crisis of 1966, the complaints by pension funds against fixed brokerage fees and a series of Wall Street scandals served to indicate that, with the explicit encouragement of the state, the playing field for American finance had expanded far beyond what New Deal regulations could contain; the pressures culminated 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 growth in international trade and investment, helped spark the derivatives revolution as demand rose for hedging risk by trading futures and options on exchange rates, as well as on interest rates for government and private securities.

The Commodity Futures Trading Commission was created in 1974 to regulate derivatives in such a way as to facilitate their development, not least to meet the growing demand for the spreading and hedging of risk in the expanding currency and credit markets. Leo Melamed, who (with Milton Friedman’s help) led the Chicago Board of Trade in developing the futures market in currencies, explicitly recognized that the CFTC

would be ‘beneficial to the growth of our markets. Our plans relating to new financial-instrument futures were ambitious and could be greatly assisted by a federal stamp of approval’. It was not neoliberal ideology that broke the old system of financial regulations, but rather the contradictions that had emerged within that system. State agencies like the CFTC were keen to promote the spreading and hedging of risk by private actors who developed, invested and speculated in derivatives. This determined the ‘why not’ attitude it adopted, allowing plenty of space for self-regulation and innovation. This approach was confirmed in 1978, when the Treasury concluded that the exchange of derivatives on US Treasury bonds, brought to the markets by the New York Fed, would help stabilize and increase holdings of US debt.

As financial markets grew both in the US and internationally through the 1980s, they extended the concept of risk trading to all forms of credit, not just interest and exchange rates. New kinds of derivative contracts, such as credit-default swaps, were increasingly traded ‘over the counter’ between financial institutions. The reluctance of the CFTC, the Fed and the Securities and Exchange Commission to rein in this development was sealed by Clinton Administration legislation in 1993, exempting a series of swap and hybrid derivative instruments from regulation. In the wake of the 1998 Long-Term Capital Management crisis, CFTC chairwoman Brooksley Born did warn that ‘this episode should serve as a wake-up call about the unknown risks that the over-the-counter derivatives market may pose to the US economy and to financial stability around the world’. But Born’s attempt to secure legislation to allow the CFTC to investigate the market ran into strong opposition from Rubin, Summers and Greenspan at the US Treasury and Federal Reserve, as well as from senators like Phil Gramm, known to be in Enron’s pocket. ‘Regulation of derivatives transactions that are privately negotiated by professionals is unnecessary’, Greenspan declared. ‘Regulation that serves no useful purpose hinders the efficiency of markets to enlarge the standard of living.’

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neoliberal nostrums was the fear that to start regulating over-the-counter derivative swaps now could spark a crisis, due to the ‘legal uncertainty’ this would create regarding the trillions of dollars in contracts involved, as the 1999 Report of the President’s Working Group on Financial Markets, of which Larry Summers was the lead author, gingerly put it.⁷

In the dying months of the Clinton Administration, with Summers now Treasury Secretary himself, the Commodity Futures Modernization Act was passed, solidifying the 1993 legislation’s derivative exemptions. While Rubin went back to Wall Street (moving from Goldman Sachs to Citi), Summers’s relocation to the presidency of Harvard may have suggested a greater independence from financial capital. His appointment as Senior Economic Advisor to the Obama Administration was thus an apparent contrast to the pipeline that seemed to link Wall Street, and especially Goldman Sachs, to the Treasury and the White House under both the Clinton and later Bush Administrations. Nevertheless, on April 4, 2009 the Washington Post disclosed that in 2008, Summers ‘collected roughly $5.2 million in compensation from hedge fund D. E. Shaw’ as well as over ‘$2.7 million in speaking fees from several troubled Wall Street firms and other organizations.’ What could clearly be seen at work here was the complex intertwining of public and private careers and interests that informed the relationship between state and market institutions, both geared to fostering financialization.

Capital and empire

Financialization functioned in a number of different ways to drive forward the American-imperial expansionism of the 1990s and early 2000s. The development of securitized markets and the internationalization of American finance provided risk-insurance in a complex global economy, without which accumulation would have been significantly restricted. In addition, the global predominance of US financial institutions helped

⁷ Larry Summers, Arthur Levitt, Alan Greenspan and William Rainer, Report of the President’s Working Group on Financial Markets, November 1999. In his memoir, Robert Rubin claims that his experience at Goldman Sachs had taught him that there were ‘situations where derivatives put additional pressure on volatile markets’ and that ‘many people who used derivatives didn’t fully understand the risks they were taking’, but that Summers ‘thought I was overly concerned with the risk of derivatives’. Rubin doesn’t explain why his deputy’s views prevailed. Robert Rubin and Jacob Weisberg, In an Uncertain World: Tough Choices from Wall Street to Washington, New York 2003, pp. 287–8.
to mobilize cheap international credit for the American economy and so sustained its role as the world’s prime consumer, even as US capital flowed out in the form of FDI and military expenditures. The dollar served as the key store of value and medium of exchange, while US Treasury bonds became the standard for the calculation of value in the world economy at large. As we shall see, financialization also played a vital domestic role, both by integrating subordinate classes into a web of financial relations through private pensions, consumer credit and mortgages, and through facilitating consumer demand in an era of stagnating wages and limitations on the welfare state.

But for all the functionality of financialization for imperial power, it also brought new contradictions. While asset inflation was considerably more in line with the purposes of American capital than the consumer-price inflation of the previous decades, it was also a deeply uneven process that was responsible for enormous volatility. The emergence and bursting of financial bubbles became a common feature of the system, and successful state interventions to contain them reinforced the notion that future bubbles could be managed. Washington’s highly pro-active role in containing domestic and international financial crises from the 1980s on was perhaps the most concrete demonstration that the alleged withdrawal of states from markets was an ideological illusion. If neoliberal policies engendered a great deal of financial activity, the effect of this was not to subordinate state capacities to market forces but rather to make political interventions all the more necessary—not least in fighting fires sparked by financial volatility—as well as more feasible. Financialization enlarged the American state’s role both directly and multilaterally, even as it extended the strategic leeway available to capital. The result was the step-by-step construction of a too-big-to-fail regime, whereby intermediaries that were so large and interconnected that their failure would bring down a significant part of the system could count on the US state, and especially the Treasury, to come to the rescue.

The repeated economic interventions of the American state, while driven by the exigencies of the moment, were never as incidental or exceptional as they were often portrayed. On the contrary, they were part and parcel of the distinctive policy practices of the neoliberal era. Both the Fed and the Treasury, faced with constant financial volatility and intermittent
crises, developed a range of institutional capacities to cope with this. But such institutional capacities should not be seen as standing above the financial world that they regulated; rather, they were embroiled in its contradictions. The increasingly enhanced role of the state, including the discriminatory practice of showering liquidity on crisis-hit banks in the North while imposing discipline and austerity in the global South, built up ‘moral hazard’ even as it generated financial innovation and expansion. Although too-big-to-fail policies are often portrayed as a last resort, indicative of neoliberalism’s essential lack of coherence, instances when the US government led the way by stepping in to contain financial crises were hardly exceptions to the rule. In that sense, the massive interventions by the Bush and Obama Administrations in the course of the current crisis are merely the culmination of the long series of interventions that marked the neoliberal era.

*Mortgaging the Great Society*

Little sense can be made of the crisis without a clear understanding of its domestic roots, which lie in networks of financialized power that have subjected working- and middle-class Americans to a regime of debt. Constrained in what they could get from their labour after the defeats suffered by the trade-union movement in the 1970s and 80s, US workers were drawn into the logic of asset inflation in the age of neoliberal finance not only through the institutional investment of their pensions, but also via their one major asset: the family home. As the ‘Great Society’ public-spending programmes of the 1960s ran up against ballooning military budgets and calls for anti-inflationary policies to sustain the dollar, financial markets were deployed to solve social problems such as the crisis of inadequate housing in US cities. Under the Carter Administration, Freddie Mac and Fannie Mae were required by the 1977 Community Reinvestment Act to underwrite home loans by banks in poor communities. This effectively opened up the market in mortgage-backed securities for low-income family housing. One of the great ironies of the civil rights and feminist movements was that, just as banks and credit-card companies were pressed to develop colour- and gender-blind risk models—creating greater equality of opportunity for getting into debt—they also subjected more and more people to the patterns of discipline and crisis within contemporary financial markets.
These policies not only gave a significant boost to the mortgage market and home-ownership rates, but also installed an infrastructure for the dramatic growth of household debt over the next decades. The era of neoliberalism did not bring about an absolute deterioration of living standards for most American working families: high levels of consumption were sustained by the accumulation of household debt and the intensification of labour—more family members working longer hours, under harsher conditions, subject to the discipline of having to meet debt payments. The inegalitarian effects of neoliberal policies helped push Americans to base many of their financial decisions on the belief that home-ownership was risk-free and guaranteed annual equity increases; such attitudes received ample official encouragement. From the 1980s, as the Reagan Administration accelerated the assault on labour rights and public provision, home-owners turned to cashing out the ‘wealth effect’ of rising property values, using such devices as Home Equity Lines of Credit. The securitization-based re-structuring of the mortgage sector in the wake of the 1984 Savings and Loan crisis fostered the link between consumption and real-estate values; this combined with the timeless allure of home-ownership to create a self-reinforcing spiral of growing market demand and rising house prices.

Markets for securitized mortgages took off after the recession of the early 1990s. The Clinton Administration was keen to promote market-based alternatives to public income in order to ‘end welfare as we know it’. It especially sought to integrate working-class Black and Hispanic communities into mainstream housing markets. The flood of new buyers (and speculators) drove a steady rise in home prices. In the wake of the Asian financial crisis and the collapse of the dot-com boom, which lowered the security offered by the stock market for investments or pension funds, the housing market emerged as a key source of wealth for many American wage-earners. Yet realization of the American dream of home-ownership on this scale was only possible because financial intermediaries were frantically creating domestic-mortgage debt, in order to package and resell it in the market for structured credit. Already well underway during the 1990s, the trend was given a great fillip by the Fed’s lowering of real interest rates in the aftermath of the dot-com meltdown and 9/11. Commercial banks competed to extend residential mortgages in order to bundle and transfer these to investment banks. Loan originators increasingly became transmission belts, shipping debt to the financial marketplace. Such securitization procedures allowed
banks to tap into new revenue sources as they faced diminishing returns on traditional services. The possibility of earning fees on debts that could be moved off the balance sheet made banks more willing to increase their exposure to low-income households. Between 1990 and 2006, the amount of residential debt held by issuers of asset-backed securities increased from $55bn to $2,117bn.\(^8\)

Much of this edifice of financial obligations was built through the ‘shadow banking system’. In order to leverage their resources and enhance their lending capacity, banks increasingly shifted their commitments to so-called special investment vehicles (SIVs), which did not fall under the Fed’s regulatory purview. The shadow banking system opened up to a wider world of structured finance: asset-backed securities, derivative instruments based on them, more derivatives based in turn on those derivatives, and an infinite variety of insurance instruments. Had the Fed been so inclined, it undoubtedly could have made more effort to impose regulations to limit the proliferation of off-balance-sheet financial obligations. But Greenspan chose not to. As he put it in 2005, ‘information processing technologies had enabled creditors to achieve significant efficiencies in collecting and assimilating the data necessary to evaluate risk.’ When combined with the risk equations in credit-scoring models, this ensured that ‘where once marginal applicants would simply have been denied credit, lenders are now able to quite efficiently judge the risk posed by individual applicants and price that risk appropriately.’ It was these improvements that ‘led to rapid growth in subprime mortgage lending’. The great accomplishment of ‘innovation and structural change in the financial services industry’ had been ‘expanded access to the vast majority of consumers, including those of limited means’.\(^9\)

The transformation of debt—not just mortgages, but also credit-card debt, student loans, etc.—into asset-backed securities became a central source of liquidity creation for American capitalism, generating a jumble of derivative and securitized instruments which rapidly spread onto the books of a wide variety of institutions, including the great New York investment banks and insurance companies. The worlds of

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high and low finance became closely interconnected in this volatile mix of finance and poverty.

The problems in the residential mortgage market can be traced directly to households’ growing payment burdens. In the short term Americans were able to manage this by re-financing, at attractive rates; but this of course only added to the structural burden. As families pressed against the limits of continually increasing their total working hours, the real income of the median US household continued to fall after the downturn of 2001. With the middle-class market effectively saturated, mortgage companies began structuring loans to capture poorer households, offering Adjustable Rate Mortgages (ARMs) with low ‘teaser’ rates for an initial two-year period. By 2006 subprime loans represented 28 per cent of total US mortgages, and subprime mortgage-backed securities had become the largest component of the American market for asset-backed securities.10 Meanwhile, against a backdrop of war in Iraq and Afghanistan, and a faltering economy, the Fed moved to support a sliding dollar by raising interest rates by a full 4 percentage points between mid-2004 and mid-2006; this translated into even higher interest premiums on subprime issues. By 2006, the delinquency rate on subprime mortgages had risen by over 4 per cent; by 2007, the rate was nearly 17 per cent.11

During the summer of 2007, it was widely reported that large amounts of debt were owed by households that were simply incapable of generating the income needed for their repayment. The course of events that followed is well known. As the number of subprime defaults grew, investors began selling their asset-backed commercial paper, thereby sparking a liquidity crunch in the wider commercial-paper market. And as more paper matured and required re-financing, pressure on SIVs increased, forcing them to sell some assets into a bad market while still holding hundreds of billions in long-term securitized debt on their books. A ‘gangrene of fear’ began to infect the major banks, as investors realized they were exposed to SIVs in unexpected ways.12 They began to hoard liquidity, as dramatic write-downs of their CDS portfolios wiped hundreds of

billions from their balance sheets. Such events were at the root of the Bear Stearns and Lehman Brothers failures.

As the malaise in the mortgage market spread to other sectors and triggered a virtual freezing of the market for interbank lending, authorities reached deep into their policy arsenal, trying one thing after another to unblock the system. But the persistent illiquidity of the markets reflecting the lack of income streams, and the fundamental insolvency of financial institutions that this had given rise to, were the manifestations of deep-rooted contradictions. The guarantees and bailouts that first Paulson and now Geithner have made available have so far prevented a full systemic collapse; but they have been unable to flush the bad debts out of the system and restore market liquidity. Estimates on the total losses on US assets now range from $2,200bn (IMF) to $3,600bn (Nouriel Roubini), the latter amount representing over five times the value of the first TARP. But as the looming scandal over bonuses paid to managers in bailed-out firms has made clear, for the American state to assume ever greater responsibility for banks’ risk is likely to be a politically hazardous project if it leaves the benefit in private hands. It is as a result of this inescapable tension that the prospect of bank nationalization, on a scale far greater than had ever been contemplated, let alone practised by the American state, made its way into mainstream public discourse.

**Nationalization?**

Mainstream commentators and policymakers, Greenspan among them, have begun to broach the idea of public control over significant parts of the financial system. While they may find the idea of public ownership distasteful in principle, many have come to recognize that institutions are being nationalized piecemeal. Hedge-fund managers have called for a more coherent approach to bank nationalization—albeit one that still adheres to the basic principles of a market economy:

> If a failing firm is deemed ‘too big’ for that honour, then it should be explicitly nationalized, both to limit its effect on other firms and to protect the guts of the system. Its shareholders should be wiped out, and its management replaced. Its valuable parts should be sold off as functioning businesses to the

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13 Martin Wolf, ‘Why Obama’s new Tarp will fail to rescue the banks’, *Financial Times*, 10 February 2009.
highest bidders—perhaps to some bank that was not swept up in the credit bubble. The rest should be liquidated, in calm markets. Do this and, for everyone except the firms that invented the mess, the pain will likely subside.¹⁴

This echoed the case for turning the banks into a public utility made on 17 September 2008 by a former member of the Bank of England’s Monetary Policy Committee, Willem Buiter, on his Financial Times blog:

There is a long-standing argument that there is no real case for private ownership of deposit-taking banking institutions, because these cannot exist safely without a deposit guarantee and/or lender of last resort facilities, that are ultimately underwritten by the taxpayer . . . The argument that financial intermediation cannot be entrusted to the private sector can now be extended to include the new, transactions-oriented, capital-markets-based forms of financial capitalism. The risk of a sudden vanishing of both market liquidity for systemically important classes of financial assets and funding liquidity for systemically important firms may well be too serious to allow private enterprises to play. No doubt the socialization of most financial intermediation would be costly as regards dynamism and innovation, but if the risk of instability is too great and the cost of instability too high, then that may be a cost worth paying . . . From financialization of the economy to the socialization of finance. A small step for the lawyers, a huge step for mankind.

The logic behind this argument was compelling. But just as the UK Labour Government’s provision of massive public capital to the banks in October 2008 ensured that they would still ‘operate on a commercial basis’, at arm’s length from government control, so did the US Treasury, no less under Geithner than under Paulson, draw back from taking direct control over companies in which it became the major stockholder.¹⁵ Maintaining the old Washington–Wall Street arrangements presented political pitfalls. Congressmen who had insisted that the condition for putting public money into the car companies was for autoworkers’ contracts to be torn up and renegotiated felt that Geithner had put them in an untenable position when it emerged that AIG executives had been paid millions in bonuses—hence the furore that engulfed the Treasury Secretary in March 2009.

When Geithner finally laid out the Treasury’s plan in detail in late March 2009, it was explicitly presented as a new version of the private-public partnerships that had become so common under neoliberalism. Along the lines of the government’s Resolution Trust Corporation during the Savings and Loan crisis, five public-private ‘asset-management funds’ were to be set up, using the remaining TARP funds as equity and subsidies in the form of interest-free loans from the Fed and the FDIC, to kick-start a market in the banks’ ‘legacy’ assets (the new name in which the toxic mortgage and loan derivatives were now to be dressed). Martin Wolf accurately summed up the essence of the plan:

Under the scheme, the government provides virtually all the finance and bears almost all the risk, but it uses the private sector to price the assets. In return, private investors obtain rewards—perhaps generous rewards—based on their performance via equity participation, alongside the Treasury. I think of this as the ‘vulture fund relief scheme’.16

The new regulators

The practices of the neoliberal era were anchored not just in the hegemonic ideas of Hayek or Friedman but in a much wider network of capitalist power relations, shaped over the course of many decades. The speed with which neoliberal nostrums are giving way to a new ‘common sense’ that stresses prudent regulation should alert us to the degree of continuity between their underlying practices; both discourses serve to paper over the more fundamental social and economic tensions that have been produced over the course of the neoliberal era. This ‘premature harmonization of social contradictions’, to borrow Ernst Bloch’s term, has a wide resonance. The advocacy of regulation has an important role to play in re-integrating angry social strata into an economic system marked by vast inequality. It was the notion that the benefits of capitalist wealth can be universalized which motivated the 1970s advocacy campaigns to secure ‘equal-opportunity financialization’. The ‘reform’ of financial institutions has long been structured in such a way as to leave control in the hands of financial elites, who exploited this to their

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advantage. There is little reason to suppose that the new common sense concerning the benefits of prudent regulation will constitute an exception to this pattern, unless these new ideas are connected to a much wider groundswell of dissent and activism.

The outrage directed at Wall Street today recalls a long tradition of populist resentment against financiers, and suggests that elements of this tradition have persisted alongside the ever-increasing integration of ‘working people’ into capitalist financial relations. Yet populism has also long been used to manipulate anti-authoritarian mass sentiments in ways that fortify political authority; the curious mix of individualism and conformity that Tocqueville noted in American society is epitomized today by Fox News. American elites have developed an uncanny capacity to play to such sentiments. This dialectic of uproar and integration was amply illustrated in the wake of the dot-com meltdown, as widespread practices of corporate fraud emerged. The ensuing legislation provided only a minimal degree of protection from ‘Enronitis’, and did nothing to help those who had lost their jobs or their pensions. But the sight of a few CEOs being led away in handcuffs served to assuage the flurry of popular anger, while financial elites continued devising chains of intermediation of which they were the main beneficiaries, just as before.

With the unravelling of the current crisis, the vilification of financiers has become widespread. As he struggled to get his TARP plan through Congress, Paulson felt compelled to avow to the House Financial Services Committee that ‘the American people are angry about executive compensation, and rightfully so’. This was rich, coming from the man who had been Wall Street’s highest paid CEO before joining the Treasury, receiving an annual $38.3m in salary, stock and options, plus a mid-year $18.7m bonus on his departure from Goldman Sachs, as well as an estimated $200m tax break against the sale of his almost $500m shareholding in the company (to avoid ‘conflict of interests’ in his new job). In the absence of a traditional state bureaucracy, leading corporate lawyers and financiers have long moved between Wall Street and Washington, acting in one sphere to introduce new regulations ‘in the public interest’ while

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in the other they specialize in discovering regulatory loopholes through which to squeeze. They have proved adept at pacifying explosions of popular discontent triggered by financial scandals and crises with promises of new regulatory frameworks, processes of ‘codification, institutionalization and juridification’ which in fact serve to lay the foundations for the further growth of finance capital.\(^{19}\)

Acknowledging before the Congressional hearings that Wall Street’s exorbitant compensation schemes were ‘a serious problem’, Paulson immediately added ‘we must find a way to address this in legislation without undermining the effectiveness of the programme’.\(^{20}\) An identical appeal was made by Obama six months later, when his Treasury Secretary’s plan for leveraging private investments with huge public subsidies was unveiled amid mass outrage over the AIG bonuses. ‘You’ve got a pretty egregious situation here that people are understandably upset about’, Obama said. ‘So let’s see if there are ways of doing this that are both legal, that are constitutional, that uphold our basic principles of fairness, but don’t hamper us from getting the banking system back on track’.\(^{21}\) The ‘but’ here spoke volumes about how social justice is necessarily trumped by the goal of returning to business-as-usual.

**Global bankers’ bail-out**

In the wake of the March 2009 scandal over the $165m bonuses paid to AIG executives, critical commentators began to point out that this amounted to ‘less than 0.1 per cent—one thousandth—of the $183 BILLION that the US Treasury gave to AIG as a “pass-through” to its counterparties’.\(^{22}\) Another commentator saw a ‘Katrina moment’ in the public evasions offered by Summers, Obama’s new Chief Economic Advisor, on the ‘counterparties’ that AIG had paid off. Yet:

> even as Summers spoke, AIG was belatedly confirming what he would not. It has, in essence, been laundering its $170 billion in taxpayers’ money by paying off its reckless partners in gambling and greed, from Goldman

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The question left hanging was whether such evidence that Washington was using public money to bail out not only Wall Street, but foreign banks as well, would undermine the American state’s balancing act between its domestic and imperial roles. For the most part, at least since the 1930s, US governments have been able to handle this tension. The Obama Administration will be no less committed than its predecessors to sustaining its imperial responsibilities in the domain of the global political economy. European leaders have been quick to credit the US Treasury for ‘acting not just in the US interests but also in the interests of other nations’. The US was not being altruistic in this, since not to do so would have risked a run on the dollar. But this is precisely the point: Washington cannot act in the interests of US capitalism without also reflecting the logic of American capital’s integration with global capitalism, both economically and politically.

In this context, not too much should be made of such differences in approach as exist between European governments that favour more multilateral regulation and a US administration which stresses greater coordination of fiscal stimuli. Indeed, current initiatives for better documentation and regulation of banks’ off-balance items and over-the-counter derivatives, and a reversal of the trend to privatize risk-management and credit-rating functions, may be considered part of a process of ‘market-making’. The increased involvement of public institutions in the assessment of financial risk can still lay the foundations for further commodification and the penetration of financial forms and principles into the farthest reaches of social life. Just as the re-regulation agenda may tend to take the wind out of the sails of domestic opposition, so proposals for a return to a more cooperative, multilateral international order may ‘prematurely harmonize’ the contradictions generated by global power structures.

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25 In this respect we share the sober conclusions regarding the implications of the crisis reached by Peter Gowan—who criticizes the view that ‘financial regimes are the product of intellectual paradigms rather than power relations’—in his outstanding analysis, ‘Crisis in the Heartland’, NLR 55, Jan–Feb 2009.
The politicization of economic life at which the popular response to the current crisis has so far only hinted nevertheless invites the articulation of visions and strategies for social transformation that have not been seen for a generation. To be sure, highlighting the opportunity for real change should not lead us to exaggerate the strength of transformative forces. The neoliberal era has played havoc not only with people’s livelihoods but equally with their political capacities. Working families’ growing reliance on credit to sustain their private lives, as well as the stratification that developed over the past three decades inside the working class, has led to an atrophy of class solidarity and collective capacities. Instead of advocating the kind of top-down re-regulation initiatives that merely re-install financial hegemony, what is needed is to probe—intellectually and culturally, as well as politically—whether this crisis could provide an opening for the renewal of the kind of radical perspective that advances a systemic alternative to global capitalism.