Has the global financial crisis challenged US power in international finance?

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Introduction

Part I- Structure, Focus & Theoretical perspective

The global financial crisis of 2007 to the present day has sent shockwaves throughout the neoliberal world, forcing into focus the inherent instability and risk underlying the international financial system and hastily rejuvenating the concept of a decline in US hegemonic power and neoliberal hegemony within the global political economy. This analysis of US power in international finance seeks to address whether the global financial crisis has marked the beginning of the end of American hegemony in international relations and the realm of international finance, or whether the crisis and the responses to it have signaled the US's ability to sustain its hegemonic role within the global political economy, to uphold the contemporary formation of the neoliberal order and to retain its power in international finance.

It is essential for this analysis to begin with an exploration and explanation of the roots of US power in international finance and the foundations upon which the era of financialization and financial expansion were built. This is crucial for understanding the institutional configurations that have supported the expansion of financial power, the changing nature of the relationship between Washington and Wall Street under the prevalence of neoliberalism and the domestic causes behind the financial crisis. After unraveling the nature of the foundations of US power in international finance, upon this vital analytical and historical basis, it is crucial to then turn to an analysis of the many arguments pertaining to a decline in US hegemonic power within the international financial system and critically evaluate the strength of these claims in the face of the few arguments opposed to a decline and the relation this all holds to the crucial significance of the financial crisis. Under neoliberalism, finance has become fundamental to the health of American capitalism and this phenomenon throws into focus the core demand of the capitalist system, namely, the relentless drive to secure efficient processes of capital accumulation – a drive that is categorically crucial to the existence of such a large financial sector and the relationship this holds to the contemporary primacy of the international financial system.

Through this understanding of the imperatives of capitalism and its relationship to financial expansion, this analysis seeks to employ a multi-conceptual theoretical framework in order to bring together the explanatory ability of different perspectives into one valid whole, as each conceptual approach identifies the causal logic underlying US state activity and the forces that undermine the related activity in financial markets that led to the crisis. The attempt to synthesise various concepts into one explanatory whole is crucial for the understanding of why finance has become so powerful and so valued within the global political economy and the subsequent relationship this attaches to the structural power of the US and the consequences of the financial crisis. This synthesis is best understood as the fusion of the concepts of structural power (Strange 1994), historical capitalism (Wallerstein 1983) and the idea of a state-market condominium under neoliberalism (Lawton et al 2000). This theoretical approach, while complex in its pluralistic nature, is the best way of observing and explaining the challenge posed to the US by the financial crisis as it seeks to objectively unmask the key forces behind the US's growing struggle for power in the international states system and the strong relationship that his holds with power in international finance. Thus, in attempting to explain the relationship between two key phenomena in contemporary political economy, namely, the global financial crisis and US power in international finance, the unification of these theoretical explanations and analyses is central to the understanding of the expansion of the financial sector under the neoliberal order, the complexity of the sources, causes and contradictions of US power in international finance and the challenge posed to it by the global financial crisis.

Part II – A Fusion of Key concepts

The concept of structural power is employed in this analysis in order to sufficiently analyse the deep interconnected and interdependent nature of the global financial system and the power relations thus contained within it. Structural power is best understood as the power to 'Shape and determine the structures of the global political economy within which other states...have to operate' (Strange 1994. p.24-5), this understanding of power in the global political economy is crucial to understanding the nature of the position of international financial dominance that the US state occupies, as viewed through the perspective of structural power, it is the US's 'diffusion of power domestically and internationally that allowed it to shape the preferences of other states' (Seabrooke 2001. p.207) that is so key to the way in which the worlds hegemon 'confers the power to decide how things shall be done' (Strange 1994. p.25) and its 'power to shape frameworks within which states relate to each other, relate to people, or relate to corporate enterprises' (Strange 1994. p.25) within the international financial order.

Under the reigning hegemony of neoliberalism, US financial capitalism is viewed through the lens of historical capitalism as a historical and social phenomenon particular to the historical development of the capitalist system. The phenomenal growth of the financial sector and its relationship to the state can be strongly linked to Wallerstein's definition of economic objectives within historical capitalism and his conception of hegemony in the international states system. Historical capitalism is thus summarized as a;

'Concrete, time-bounded, space-bounded integrated locus of productive activities within which the endless accumulation of capital has been the economic objective or 'law' that has governed or prevailed in fundamental economic activity' (Wallerstein 1983. p.18)

Under the historical and social system of capitalism, the economics of capitalist states has been 'governed by the rational intent to maximize accumulation' (Wallerstein 1983. p.17). This conceptualisation of capitalism has vast implications for the US struggle for power in the international states system – as achieving and sustaining a hegemonic position in the world system is directly connected to the economic realm. Therefore, victory in the ascendance to hegemony lies in 'the ability of accumulators of capital located in the particular states to out compete all others in all three major economic spheres – agro-industrial production, commerce, and finance' (Wallerstein 1983, p.59). With the prominence of finance within the contemporary global political economy, Wallerstein's concept of hegemonic power being decided in three economic spheres can be directly related to the explosion of the financial sphere, as processes of financialization and financial expansion under neoliberalism became crucial to the US hegemonic order. Thus, the deeply embedded concern with maximizing capital accumulation within the historical capitalist system reflects the ascent of the financial sector in the world's capitalist hegemon in order to maintain power. This then poses a theoretical challenge to the concept of structural power, as the primacy of maximizing capital accumulation and therefore resources, is inextricably related to forms of structural power in international finance. Thus, in international finance structural power complements and indeed enhances US economic power within the international states-system.

This finally leads us to the state-market condominium, in which the state and market are not typically viewed as two separate entities, but rather an 'integrated ensemble of governance' (Lawton et al 2000, p.129) which work together to secure and diffuse structural power which in turn provides suitable conditions upon which to ensure the accumulation of capital. This is adapted from a Polanyian understanding of the market, where 'the market makes no sense without the state, indeed the market was structured and enforced by the state' (Lawton et al 2000, p.129). This understanding, whilst transcending the state-market divide, is wholly applicable to the financial market and has an innate theoretical ability to nurture a transcendence of the conceptual conflict between structural power and historical capitalism in their understanding of power, as the state-market condominium is at the core of the processes of diffusing structural power in international finance and adhering to the objective law of maximizing capital accumulation. This analysis therefore rejects the assertion that 'power is more the ability to shape preferences than the ability to command resources' (Seabrooke 2001, p.38) and asserts that US hegemonic power in international finance lies in the ability of the state-market condominium to ensure the dominance over international financial structures *and* the increasing value of capital accumulation within those structures, for the maintenance of state power.

The task in this analysis is therefore not only to try and discover the challenge posed by the financial crisis to US power structures in international finance, but also to question the extent to which the state-market condominium is challenged by the financial crisis and how this might affect the inter-linked structural and state power of US power in international finance in the global political economy.

The Foundations of US Power in International Finance

'Throughout the capitalist era financial expansions have signaled the transition from one regime of accumulation on a world scale to another. They are integral aspects of the recurrent destruction of "old" regimes and the simultaneous creation of "new ones" (Arrighi 2003, p.ix-x)

The US path to global supremacy within the international financial system is inherently multifaceted and it is important to observe the nature of the US's rise to financial power in order to understand the forces and causes behind the early financial developments that contain the roots of the global financial crisis today. It is therefore essential to observe; how the US surpassed Europe during the postwar order, the US reaction to an encounter with a decline in economic productivity and stagflation, the importance of the collapse of the Bretton woods system, the US's ability to sell on dollar-debt, the financial-institutional configuration under the US state and the relation this all holds to the impact of the rise of neoliberal hegemony.

After emerging out of WWII as the world's hegemon, The US was in a favorable position to begin to construct a position of dominance within the international financial system. This is most notably seen during the post war order, where the position of the dollar and role of New York opened up the pathway to financial supremacy as 'the dollar was the only convertible currency and New York was the only open financial centre' (Panitch & Konings 2008, p.15) in the international financial system. As the only contender for supremacy within the international financial system, Europe was heavily damaged from the costly and economically traumatic experiences of the war, and by the time 'European countries had recovered sufficiently to restore convertibility, the American financial system had already gone through almost two decades of domestic financial growth' (Panitch & Konings 2008, p.15-6). This head start against the European continent, with the backing of the gold standard and the establishment of the Bretton Woods monetary system, would set the stage for future global supremacy within the international financial order, deepening the global strength of the dollar and the role of New York as the world's financial hub.

This position would allow the US to secure the primacy of 'direct financing' in the international financial system, a process that transforms 'how government interests and financial communities manage capital and access credit' (Seabrooke 2001, p.1), and includes the 'disestablishment of the traditional role of financial institutions and the promotion of the use of debt and equity markets where capital and credit are created, bought and sold' (Seabrooke 2001, p.1). If a financial structure is understood as the 'sum of all the arrangements governing the availability of credit plus all the factors determining the terms on which currencies are exchanged for one another' (Strange 1994, p.90), then the role of the dollar as the world's main reserve currency and the US led adoption and promotion of a particular financial structure, in the form of direct financing, was crucial to its 'extension of structural power in international finance' (Seabrooke 2001, p.198) in the post-war order.

During the 1970's, the American economy would experience changes within its industrial sector in stark contrast to the empowering productivity of the post-war economic boom, as it would see a reduction in productive output that would play a pivotal role in the coming global financial revolution. As the 'generalized slowdown in productivity growth for the industrial economies from the 1970's' (Walter 1993, p.203) would prompt a search within the US capitalist system for ways of maintaining the systemic demand of capital accumulation, this would not hinder the US state's drive in attempting to restore its industrial strength during this era, as 'From the 1970's through to the early 1980's, the American state waged a vigorous battle to revive the industrial economy' (Gowan 2009, p.24) in an attempt to restore its productivity, yet this revival emerged unsuccessful. Alternative methods of capital accumulation now had to be given a new emphasis and meaning within the world's hegemon, paving the way for the financial revolution.

This slowdown in industrial growth was one important factor in the emergence of a new financial capitalism within the development of the historical capitalist system in the US, though arguably the most important factor was the hegemonic shift towards neoliberalism. This shift was triggered by the global economic recession of the 1970's and the oil crisis of 1973, both of which served to shock the core of the US economy, whilst the onset of a period of stagflation alerted the US government to the economic severity of this systemic crisis. As the intellectual climate shifted towards an embrace of the supposed promises of the anti-Keynesian and monetarist truths, this 'serious crisis of capital accumulation' (Harvey 2006, p.57) prompted a search for a transformative solution to the numerous economic (and thus power oriented) threats in the international system posed by the oil-based power in the hands of OPEC countries, the ascendance of the European and Japanese capitalist economies, a decline in industrial productivity and the desire of the US state to maintain its hegemony by satisfying the requirements of maximizing accumulation in order to sustain economic power. This 'sea change in the organisation and operation of capitalism since 1973' (Assassi et al 2007, p.7) was ignited by the embrace of neoliberal doctrine and its adherence to market fundamentalism and defence of unfettered capitalism as the most effective means of securing efficient and functional markets. Within this intellectual and political-economic paradigm, neoliberalism was able to provide 'the theoretical background of liberalized and self-referential financial markets' (Altvater 2009, p.76) as the 'necessity of disembedding financial markets was justified by the concept of market equilibrium and efficiency gains' (Altvater 2009, p.76) within the US economy.

The move to enhance the power and scope of financial markets would also plant the seeds for the eventual collapse of the Bretton Woods System (BWS) along with Europe resurfacing as a rival financial power in the international system with the rise of the Euromarket. The US's increasing access to the Euromarket was fundamental to the shift in international finance towards US dominance as the Euromarket countries investment in the US economy strengthened interdependence and thus dependence on the strength of the dollar (Konings 2008, p.54). Indeed, if we also consider that 'Washington's ability to persistently sell US government debt on international financial markets' (Seabrooke 2001, p.46) is key to the extension of US structural power, and that 'at the end of the millennium, Japan, Britain and Germany, respectively, continue to be the primary holders of US government debt' (Seabrooke 2001, p.199), two of which are key large markets within the Euromarket, we can see that the Euromarket itself was a key market for the 'ability to externalize the US's fiscal problems' (Seabrooke 2001, p.46) within the international financial system. As the neoliberal era saw banks 'raising large amounts of reserve funds in the Euromarket' (Konings 2008, p.54) and the 'advent of the offshore Eurodollar markets and decline of the US dollar made it increasingly difficult to maintain the dollars convertibility to gold' (Montgomerie 2008, p.238), these factors, along with the simultaneous international expansion of financial markets, were crucial to the demise of the BWS.

The collapse of Bretton Woods was ultimately beneficial to the US, as the dollar became the sole backing to other currencies and was fundamental to the floating exchange rate system, thus interdependence took on a new meaning. As the BWS 'created insurmountable difficulties for governments' (Montgomerie 2008, p.238) to facilitate economic growth and expansion with the infamous 'impossible trinity' or otherwise known 'intrinsic incompatibility of exchange rate stability, capital mobility and national policy autonomy' (Montgomerie 2008, p.238), the US was key to 'facilitating the financial market expansion that led to the downfall of the BWS' (Montgomerie 2008, p.238). With the collapse of the BWS, the US introduced the paper dollar standard, which essentially removed the gold backing of the dollar. As exchanges rates were now set to float, The US secured financial power with the new paper dollar standard as 'the volatility of other currencies was less important to Americans than the volatility of the dollar was to the Germans, the Japanese and the OPEC and NOPEC countries' (Strange 1994, p.107) in international financial markets, meaning international dependence on the security of the dollar was effectively heightened after the collapse of the BWS in an increasingly volatile financial environment.

With the sweeping national power of neoliberal doctrine after the collapse of Bretton Woods, the dangerous obsession with deregulation and liberalisation was focused heavily towards the US financial system. If 'fragmentation has been the defining structure of US financial institutions and markets' (Underhill 1997, p.294), then the deregulation and liberalization of financial markets and introduction of the paper dollar standard served to only worsen the volatility of financial markets, as not only was the 'financial structure under the paper dollar standard in the decade 1973 to 1983 beset by uncertainty and violent change' (Strange 1994, p.109), but fragmentation itself 'set in motion an evolutionary process that eventually laid the groundwork for deregulation' (Underhill 1997, p.297). Thus, the financial structure that was particular to the US state was in itself vital to the move to deregulate the financial system. This particular configuration is evidence of the strength of the state-market condominium in the US, as is noted, 'Like the institutions that they supervise, US financial regulatory agencies are fragmented' (Underhill 1997, p.297), it is therefore vital to recognize that the nature of the government's relationship to the financial sector is also fundamental to its structure. But this fragmented structure does not weaken the relationship between Washington and Wall Street, as the commonly perceived move to deregulate was in fact a mask for implementing a new form of institutional control by key government agencies such as the Federal Reserve and US Treasury. Under this neoliberal state-market condominium, the US witnessed 'not so much a retreat of the state, but a transformation of the state in symbiosis with the transformation of economic structures' (Lawton et al 2000, p.132) as 'deregulation was, in fact re-regulation' (Panitch & Konings 2008, p.243) of the way the government would manage the new financial capitalism. As we will see, the US government was not only able to exploit its 'policy autonomy to attract capital flows or empower central banks to provide an institutional context amenable to international investment' (Montgomerie 2008, p.242), but in addition, it ensured the 'development of new forms of institutional control over market processes' (Assassi et al 2007, p.165), signalling a transformation in the way government would facilitate conditions for processes of financialisation to thrive and subsequently exacerbating the state's dependence on the objective law of endless capital accumulation in order to secure its hegemonic power.

We have seen that the collapse of Bretton Woods, the advent of the Euromarket, the transition to a regime of floating exchange rates and a pure dollar standard have been key to the way in which the US extended its structural power in international finance, but the institutional control over interest rates and the relative speed and dynamics of the financial innovation took that place under the explosion of the financial sector are crucial to the foundations of US power in international finance and therefore, the global financial crisis today. With these factors under consideration, we are led to one of the strongest contradictions of structural power and subsequently one of the root causes of the global financial crisis, as the;

'Strategies and innovations functioning to extend US structural power in international finance during the 1970's were at the same time at the root of the Fed's inability to control the domestic dynamics of money and credit creation' (Konings 2008, p.43)

It is therefore fundamentally important to note that 'financial innovation led to the breakdown of central banks control over the mechanisms of money and credit creation in the commercial banking system' (Konings 2008, p.58) with the ascent of neoliberal hegemony, and this expansion of private finance marked the increasing power of the private sector to create credit without hindrance, whilst confirming the concept of 'financialisation as a main pillar of neoliberal globalisation' (Assassi et al 2007, p.3), as the privatization of credit was absorbed into the international financial system. This increase in financial power was essentially approved by the Federal Reserve, as it surprisingly found that 'the ongoing expansion of money and credit no longer resulted in high rates of inflation' (Konings 2008, p.54), standing in contrast to the authoritative principles of monetarist theory. Monetarism states that an increase in the supply of money in the national economy will result in high rates of inflation and does 'not allow for increased control over total reserves and the quantity of money' (Konings 2008, p.55) within the economy, as supply and demand are left to ensure price stability and low inflation. The Fed was not only surprised at the powerless role it had over the mechanisms of credit creation and the challenge this posed to monetarist truths, but again, increasing access to the Euromarkets played an important role in the spread of dollar-denominated investment and its lack of domestic effects on inflation rates, as through the 'Eurocurrency market US corporations could continue to raise and send money outside the US, so that the US inflation rate did not necessarily correspond to the rate of credit creation in dollars' (Strange 1994, p.108). Clearly, the contradictions embodied in the empowerment of the private financial sector would have serious international economic ramifications if credit creation were not brought under proper governmental control, yet the US's key financial institutions were aware of the enhancement to structural power the 'mass privatization of credit' (Seabrooke 2001, p.9) would bring. The powers of financial innovation and credit creation were able to transcend the monetarist scope of the US's institutional framework, giving the institutions themselves a redefined role, as;

'Credit creation was not brought to a halt but rather embedded in a new institutional regime that served to redirect credit flows in a way that increased rather than jeopardised US power in international finance' (Konings 2008, p.55)

This redirection of credit flows into the financial sector instead of the real economy would transform the nature of the US economy and lock in one of the strongest contradictions in structural power relations. This new set of power afforded to the financial sector would foster the drive for financial innovation, as the 'explosion of both old and new activities and instruments, such as arbitrage, leverage and derivative trading techniques' (Assassi et al 2007, p.7) was assisted by the fundamental reconfiguration of banking practices, in which banks now 'trade directly on debt and equity markets rather than rely on deposit taking and savings to raise capital' (Montgomerie 2008, p.237), showing the extent to which the promotion of direct financing had transformed the financial system. Alongside the ascendance of neoliberalism during the 1970's;

'All items in a banks portfolio came to be seen as marketable securities that can be assigned a certain level of risk and liquidity, and the art of banking consisted in balancing the two sides of the ledger while maximizing profitability' (Konings 2008, p.51)

The process of financial innovation became viewed throughout the financial world as a competitive norm in investment and commercial banking; indeed, innovation itself aided the widespread expansion of finance. This norm marked the ascendance of risky business in the form of financial instruments that would encourage off-sheet balance transactions that are 'executed 'over the counter': not via the floor of an exchange but among a few parties by telephone and computers' (Assassi et al 2007, p.7). This has served to create a favourable situation in which the US is the leader in financial market innovation and this position in turn strengthened the use of the dollar as the main currency within financial markets 'due to the relative attractions of US financial markets and the leading role of American banks in the development of new products and techniques in international finance' (Walter 1993, p.256). As 'little of the credit created found its way into the real economy' (Konings 2008, p.54-55) under the financial explosion in the US economy, this meant that the business of finance grew immensely, greatly accelerating processes of competition within the expanding financial markets between leading financial companies (Strange 1994, p.109). This competition enhanced the drive for innovation, leading to the 'invention of all kinds of new devices, first to reduce vulnerability to inflation, or to government tax or regulation, and then to hedge against uncertainty' (Strange 1994, p.109). The state-market condominium allows an insight into the intricacies of the expansion of finance under the neoliberal financial revolution and although there has been a radical transformation of capitalist processes, the 'underlying logic of capitalist accumulation and its crisis tendencies remain the same' (Assassi et al 2007, p.7). This tendency towards crisis is a phenomenon the US hegemonic state has to confront in order to stabilise its structural and state power. Ever since the deregulation and liberalization of finance the US state has assumed a deeply contradictory role, this points, firstly to a;

'Central paradox of the neoliberal state: in order to be effective policymakers must evade responsibility for economic outcomes, but this very act risks eroding the political conditions supporting state action' (Krippner 2007, p.507)

As the US's financial institutions essentially approved the expansion of credit creation in the private sector this marked the increasing power of the private sector over the national institutions in the financial realm, making the need for state intervention more likely. The neoliberal state-market condominium has thus transformed in a way in which it ensures the maintenance of the financial order through successive bailouts and institutional support of the market power of the financial sector. This transformation is most notable through the history of intervention ever since the neoliberal explosion of finance, where over the last quarter century, during the financial catastrophes of;

'Black Monday in October 1987; the housing crisis in 1992; the Asian crisis in 1997-98; or the bursting of the high-tech bubble at the end of 2001 – the Federal Reserve always moved swiftly to prevent the downturn spreading more widely into the economy' (Goodhart 2008, p.1)

What is crucial for the foundations of US power within international finance is also the way in which the development of the historical capitalist system within the US acts a developmental model for the rest of the world, as it proves to be beneficial, if not necessary, to compete with or indeed embrace the innovatory instruments and practices of the commercial and investment banking systems, through adopting processes of direct financing and due to the prevailing strength of the dollar. Indeed, for many states, the intense competitive and innovatory pressures in the international financial system are themselves a force that makes a coercive adaptation to the changing nature of the global capitalist system mandatory.

The foundations of US power and hegemony within international finance also show that the drive for maximizing capital accumulation ensured the introduction of a new financial structure on a world scale, highlighting the importance of capital accumulation within international finance for state power. Under the historical capitalist system, the US state must continue to increase its power through processes of capital accumulation not just to reconfirm its position and status within the international states system, but given the volatility and crisis tendencies of the new financial capitalism, to ensure the efficiency and capability of maintaining its domestic economic order whenever a crisis is at hand. This requirement may itself prove to be a key factor in the decline of US power in international finance.

The Threats to US power in International Finance

The bailout of the banks today is evidence of the US state's desire to mend the systemic damage done by financial liberalization and deregulation in the face of the resurfacing effects of one of the fundamental contradictions of structural power and the empowerment of the financial sector. The dominance of neoliberalism is now so engrained within the US historical capitalist system, it is important to assess, on the basis of the insights into the foundations of US power in international finance, how the global financial crisis threatens the hegemony of the US in the international financial system.

In engaging with the foundations of US power in international finance, we get at the root causes of the global financial crisis, as the deregulation and liberalisation of financial markets under neoliberalism are at the root of the way in which financial markets operate today, proving that these measures have caused 'national financial systems to become increasingly vulnerable to increased systemic risk and to a growing number of financial crises' (Kolko 2009, p.26) within the international financial system. We now find the capitalist system not only being driven into new realms of volatility and instability as 'Financial innovation continues to drive much of the global financial system beyond the gaze and expertise of existing regulatory bodies' (Assassi et al 2007, p.9), but the US state itself, a beacon of the capitalist order, has become incredibly dependent on the profitability of the financial sector and its relative expansion. As since the expansion of finance under neoliberal hegemony, the 'financial sector constituted the most profitable component' (Gowan 2009, p.7) of the US economy, and in '2006, no less than 40 per cent of American corporate profits accrued to the financial sector' (Gowan 2009, p.7) alone.

If the expanding financial system brings with it so much inherent instability and risk, this is a profoundly volatile stage for the development of the historical capitalist system and the deep dependence this development has with the changing nature of US hegemony in international finance and the international states system. The most recent hallmark of this innate instability has surfaced in the form of the global financial crisis, which is proposed to be a crisis similar to the scale and depth of the great depression (Araghi 2008). This crisis began in the sub-prime mortgage market of the US economy and subsequently spread to become a global crisis of bank capital and liquidity. The nature of this crisis is rooted, as we have seen, in the neoliberal transformation and thus empowerment of the reach and scope of the financial sector. It is also rooted not only in the consumerist tendencies of American society, but also in the financial sector's explicit attempt to increase public indebtedness and play on those societal tendencies in order to increase profits. These measures, however, have also enhanced the structural power of the US, as 'Personal, corporate and public indebtedness has led to greater financial innovation and to the greater socialization of finance. US structural power in international finance has benefitted as a consequence' (Seabrooke 2001, p.17), due in part to the benefits gained from leading in the field of innovatory financial instruments, which themselves, are paradoxically crucial to the sub-prime mortgage crisis which sparked a recession in the US economy, proving that ' the paradox of privatised finance and perfecting markets is that the very innovations that herald market competition, generate novel and acute threats to systemic stability' (Assassi et al 2007, p.8) within the international financial system. The offering of sub-prime loans was a further attempt at spreading the privatization of credit and a way of integrating the masses into the debt economy by luring them into a false hope of realising the American dream. Indeed, the sub-prime crisis has 'exposed the connections between such a key component of the American dream as home ownership and the mechanisms of financial expansion and innovation' (Panitch & Konings 2008, p.4) within the US economy, as there exists certified proof of Wall Street banks plans to blow a risky house-price bubble before its inevitable burst, as they 'spent billions of dollars on advertising campaigns to persuade Americans to increase their mortgage-related debt' (Gowan 2009, p.18) whilst 'urging them to take out second mortgages and use the new money for consumption spending' (Gowan 2009, p.25). As a result, millions of Americans bought into the expensive advertising campaign and by 2006, 'subprime loans represented 28 per cent of total US mortgages' (Panitch & Konings 2009, p.76), further exacerbating the US economies predisposition to risk under the new financial capitalism. Financial instruments such as Structured Investment Vehicles (SIV's) and securities such as Collateralized Debt Obligations (CDO's) rose to prominence alongside the ascent of hedge funds and credit derivative markets. These instruments and new financial markets were essential to spreading risk and uncertainty throughout the financial system, as;

'Disintermediation and financial innovation, particularly in derivatives and structured products, have generated a situation wherein the risks arising from the uncertainties of inflated capital markets are less easily identified and located' (Assassi et al 2007, p.4)

This ability to spread risk across the financial system was worsened by government-backed financial promises. The sub-prime mortgage market built up under a neoliberal system of new financial capitalism in which the strength of the state-market condominium fostered the development of a government issued guarantee, ensuring that the 'Fed would support financial markets in any serious collapse' (Goodhart 2008, p.1) if a financial crisis were to occur. Under the ascension of the banking practice of originate and distribute, the new role of investment and commercial banks was increasingly influenced under this state-market condominium arrangement, proving the way in which Washington's and Wall Street's governance are deeply integrated.

Sub-prime loans are much more prone to default than in other mortgage markets (Goodhart 2008, p.3,) and this inbuilt risk was spread throughout the international financial system, as 'mortgages from the sub-prime market in the US ended up in bank conduits, and SIV's, in the rest of the developed world, notably Europe' (Goodhart 2008, p.3). This effectively served to spread the risk of US sub-prime mortgages throughout the world's financial system. This in turn, serves to highlight another contradiction of structural power in international finance, as the spread of risk throughout the international financial system reinforces the structural power of the US it also simultaneously threatens its domestic economic security and undermines its international financial reputation. The sub-prime mortgage crisis unleashed a 'maelstrom involving banks in Germany, France, Asia and throughout the world' (Kolko 2009, p.35) and this is evident in the direct impact on the European economies, as;

'European banks hold over half a trillion dollars in so-called asset-backed commercial paper, much of it in the US and sub-prime mortgages. The failure in America caused Europe too to face a crisis' (Kolko 2009, p.35)

This asset-backed commercial paper (ABCP) is essentially a short-term bill which is 'sold to all kinds of investing institutions' (Goodhart 2008, p.2) for short-term financing. They are largely held by money market managers, who have a guarantee to investors that 'they will always be able to transform the funds held with them back into cash without any loss' (Goodhart 2008, p.3) if need be. As was noted before, the sub-prime market was much more prone to defaults than other mortgage markets, and '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' (Panitch & Konings 2009, p.76), and, once these money managers were exposed to the increasing likelihood of a collapse in the sub-prime mortgage market, they 'refused to roll over their holdings of ABCP' (Goodhart 2008, p.3-4) to various investment institutions. As investors sold off their ABCP and money managers fled from their 'convertibility commitment', 'ABCP holdings began to decline dramatically' (Goodhart 2008, p.4) and the SIV's which held much of the securitised sub-prime mortgages 'ran a clear funding risk: if ever the money markets became illiquid they would be unable to repay their ABCP as it fell due' (Goodhart 2008, p.2), and that is exactly what happened – the money markets dried up. Many Wall Street banks had been 'borrowing billions in the money markets' (Gowan 2009, p.18) in order to purchase CDO's, and in '2007 the debt bubble within the financial system was concentrated in over-the-counter derivatives, in the form of individual CDO's' (Gowan 2009, p.18), the Wall Street banks required more and more funding for their 'tens of thousands of CDO's' (Gowan 2009, p.18), and this meant that 'to continue to turn that profit they had to keep going back to the money markets to roll over their debts' (Gowan 2009, p.19), which as has been shown, was illiquid. The exit of the money market managers and suppliers of credit funding essentially sparked the crisis in the sub-prime market.

This crisis, coupled with the interconnectedness of US finance throughout the globe, has meant that a 'sub-prime mortgage market involving a mere $34 billion in troubled loans had by the summer of 2007 imperiled a $57 trillion American financial system and then spread to numerous countries throughout the globe' (Kolko 2009, p.21). The very reliance on such an unstable system of capital accumulation has served to threaten US power in international finance, as the need for a strong economy becomes ever more important to maintain the neoliberal order, the nature of the emphasis on the financial sector for securing processes of capital accumulation also brings with it greater risks than other periods in the development of the historical capitalist system, as it is vital to note that the 'scale, scope, and technical sophistication of the current financial expansion are, of course, much greater than those of previous financial expansions' (Arrighi 2003, p.300), and this itself serves to extend US structural power and subsequently risk, as the nature of global financial integration ensures that much of the capitalist world faces a crisis when the US does.

It is important to note that it is not just the financial crisis that serves to threaten the hegemony of the US in international finance, but the expansion of the financial sector itself, the US twin deficit and the decline of the dollar, that serve to threaten the US's position as a result of a dynamic and changeable power structure in the international states system. This is why the foundations of US power in international finance are so important. If we consider Wallersteins conception of hegemony being determined within the economic realm, then we must conclude that the strength of the state-market condominium, as has been shown with the relationship between Washington and Wall Street, is also crucial to the maintenance of power in international finance and thus hegemony.

The prospect of a more multi-polar international states system is becoming ever clearer, as not only does the rise of East Asian economies, most notably China, threaten the international power of the US state, but the 'strengthened financial clout of China and other East Asian states' (Gowan 2009, p.28) could serve to threaten its structural power in international finance, posing a further threat to its state power. This threat is worsened by the 'contrary debtor relations between the United States and the East Asian New Growth Centre economies' (Gowan 2009, p.28), which at the very heart of these relations, lies the economic interdependence between China and the US. Given that 'America's critical national debt of almost $10 trillion – most of it owed to the Arab states and China' (Kolko 2009, p.15), is worsened by the financial crisis, the relationship with China as a vital creditor means that their economic relationship is essentially a 'power relationship in which China (and other creditors) can exercise real political leverage over Washington' (Gowan 2009, p.28). This relationship is evidence of the changing nature of the international states system and the relationship between US structural power in international finance and US state power in the international system. This shows that if threats are sustained against the US's economy and economic power, then a direct threat to its hegemony will follow, proving that the economic realm is at the heart of hegemonic power.

The economic challenges facing the US are therefore worsened by the financial crisis, as 'the emerging global financial problem is proving inextricably tangled, with a fast-rising US fiscal and trade deficit' (Kolko 2009, p.27). Whilst diffusing its structural power in international finance 'the twin deficits run by the US through the 1980's have led to the US changing from being the world's largest net creditor to its largest net debtor in book-value and current cost terms' (Walter 1993, p.231), and this large government debt within the economy has been worsened by the new financial capitalism, with US debt continuously increasing throughout the neoliberal era, as 'Aggregate US debt as a percentage of GDP rose from 163 per cent in 1980 to 346 per cent in 2007'(Gowan 2009, p.26) figures show that 'the really dramatic rise in indebtedness occurred within the financial sector itself: from 21 per cent of GDP in 1980 to 83 per cent in 2000 and 116 per cent in 2007' (Gowan 2009, p.26). If US power in international finance lies within the ability to ensure control over international financial structures and the increasing value of capital accumulation within those structures, this hegemonic power is simultaneously worsened by the massive increases in debt which arise from the expansion of such an inherently volatile sector. The contradictions which lie at the foundations of US power in international finance and the financial era of the hegemonic-historical capitalist system have thus been worsened by the reigning neoliberal state-market condominium's protection and promotion of the empowerment of the debt fuelled financial system. A system that is heavily dependent on the 'accumulation of consumer debt' (Gowan 2009, p.25) and processes of financial innovation that ultimately end up 'privatizing systemic risk' (Assassi et al 2007, p.9) in the international financial system.

The power given to the foreign exchange market to determine exchange rates after the collapse of the BWS may have also proven to be detrimental to US power in international finance, as 'the increasing role of private international financial markets has eroded the market power which accrued to reserve currency countries under the gold exchange standard' (Walter 1993, p.231), and this has in turn enabled other economic powers within the international financial system to 'accelerate the transition from a dollar-centred system to a more symmetrical multi-currency system' (Walter 1993, p.231) in the global political economy, providing further evidence for the decline in US financial power. If 'the decline of the central role of the dollar will create major economic dilemmas for the US in dealing with its existing national debt,' (Wallerstein (2006, p.92) then this decline of the dollar deepens the economic trauma ahead for the US, as the financial crisis is entangled with the US twin deficit and government debt within the US economy, the possibility that 'the euro and the yen will become more widely used as mediums of financial accumulation and commodity exchange' (Wallerstein 2006, p.92) seems ever more likely as the power of the dollar deteriorates along with the hegemony of the US in the face of rising East Asian powers, most notably China.

As was noted in the foundations of US power in international finance, the strength of the dollar and the international reliance on its strength was crucial to the extension of US structural power, meaning its possible decline could be one of the greatest threats to US power in international finance. The threats to US power in international finance are therefore numerous; with the decline of the dollar and twin deficit pertaining to a sharp decrease in the US's global economic power, the ideological effects on the American population of the pursuit of the American dream and a largely consumerist society, the great power afforded to the financial sector under the banner of deregulation and liberalization, the global impact of the financial crisis and finally, the extension of structural power in order to have control over a sector in which the accumulation of capital becomes most important, may have marked how the US has sown the seeds of its own destruction in international financial power. It is on the basis of these startling contradictions, that we must turn to the possibility of the US maintaining its financial hegemony in the face of the rise of other economic powers and the possible decline of the dollar.

Conclusion:

Finance and US State power: an enduring relationship – but enduring hegemony?

'Over the whole history of the capitalist system, the larger the risk – and the losses – the more likely it has been for governments to step in to prevent bankruptcies and even to restitute losses if only because of the financial turmoil they wished to avoid' (Wallerstein, 1983, p.54)

Far from being just a reinvention of the functions of the state under false rhetoric in the era of neoliberal hegemony, financial bailouts under neoliberalism have been a telling sign of the consistency of the capitalist state powers desire to maintain the financial order and thus their economic power. The type of market fundamentalism espoused under neoliberalism is a theoretical myth, especially when considering the importance of the axiom of capital accumulation under historical capitalism and its deeply integrated relationship with structural and state power. Nowhere is the state-market condominium more important than in the reaction to the global financial crisis and in its past efforts to nurture the financial sector to economic primacy in breaking the false neoliberal dichotomy that portrays finance and the state as separate entities. The collaboration of capitalist states to save their faltering banks in the wake of the severity of the global financial crisis has been a defining moment for the development of the state-market condominiums role and power. As the aforementioned history of the state-based guarantee against financial collapse shows, the reactions to this crisis demonstrates that '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' (Panitch & Konings 2009, p.73). Given the scale and scope of the financial expansion that has occurred under neoliberalism, the bailout in its entirety is itself unrivalled in historical capitalist history, as;

'Between April and October 2008 this massive Central Bank funding operation involved about $5 trillion of credit from the Fed, the ECB and the Bank of England – equivalent to about 14 per cent of global GDP' (Gowan 2009, p.19)

As is evident in the US reaction to the financial crisis, the government was willing to step in and maintain the position of the banks and the primacy of the financial sector, as; 'The Fed essentially substituted itself for the creditor institutions of the credit system, supplying loans, 'money-market' and 'commercial paper market' funding for the banks' (Gowan 2009, p.19). Given that the state-market condominium is so crucial for the maintenance of power in the global political economy, the financial bailouts and injections of liquidity into the economy demonstrate the need for the US government and its markets to interact not just to stabilise their domestic situation but to reinforce the international power configuration. Indeed, these two factors themselves also share an ongoing commitment. The neoliberal state-market condominium proves that within the US;

'The main defense against market failure is the government, particularly the Federal Reserve, but its efforts require the co-operation of private financial institutions' (Underhill, 1997, p.307)

This understanding demonstrates that the state and market must work together to find solutions to financial crises, though when this philosophy is applied to the international financial system, inter-governmental co-operation and thus international financial market co-operation is so lacking that the ongoing refusal to set up a global financial regulatory body may prove to be a key factor in the continuation of US power within international finance in the near future. Indeed, the US's refusal to construct a global financial regulatory regime is crucial for the foundation and continuation of its power in international finance. As 'following the collapse of Bretton Woods, Washington opposed the formation of a new monetary regime with capital controls as it would hamper Wall Streets interests' (Seabrooke, 2000, p.201). This sort of economic logic, based largely on national self-interest, still prevails today. No global preventative and regulatory measures have been taken as a result of the financial crisis, though these negotiations are still very much under way, as a recent 'global financial stability' report from the IMF briefly hints at the need for systemic regulation, as;

'At the financial regulatory architecture level, one of the most prominent proposals is the creation of a systemic risk regulator that would focus on the macro prudential monitoring of the financial system as a whole' (IMF 2010, p.3)

This is not particularly promising, but hints at the steps needed to form a powerful centre for the regulation of global financial markets. As the US has pursued 'policies of international passivity and national activism' (Seabrooke 2001, p.201) in the realm of international finance, this lack of participation in the formulation of a comprehensive plan to regulate the global financial system has acted in its favor. Various factors, of which the US is at the pinnacle of, will continue to serve to challenge this regulatory proposal, as;

'Increasing wealth, technological change and the dynamic relationship between financial innovation and competitive deregulation are all likely to undermine regulatory structures aimed at the constraint of international financial flows' (Walter 1993, p.253)

These factors are all prevalent within the US state and serve to collectively act as powerful opposition to the creation of a global financial regulatory body, especially when one considers there extension to other capitalist states through US structural power. Though there are many previously outlined contradictions of the neoliberal expansion of finance and the extension of US structural power in international finance, one factor that may have served US power well is that processes of financial innovation and deregulation will continue to thwart plans of financial regulation on a global scale in the near future, though this will surely worsen the volatility inherent in liberalized capital flows throughout the international financial system. Also, the question of the decline of the dollar may just be a question of time, as the 'dollar is still unrivalled as an official reserve currency, as a transactions currency and as the denomination of choice for issues of bonds and stocks' (Panitch & Konings 2008, p.26) in the international financial system, signaling the possible continuation of US power in international finance with regards to the strength o the dollar experiencing a slower decline than comparative state power in the international states system.

As the US continues to 'put short-term national interest first above the long term health and stability of the global system' (Strange 1994, p.117) in an increasingly multi-polar international system, it seems that the weight of the arguments in favor of a decline in US financial hegemony provide the most poignant insight into the nature of power relations in international finance, as the main opposition – the failure to construct a global financial regulatory regime – will likely threaten the global financial system as whole. The global financial crisis reveals the interconnectedness of the international financial system and this itself will simultaneously remain a form of power for the US state, whilst the ascent of powerful economies in East Asia will undoubtedly challenge the US hegemonic order. But how soon and in what form this challenge will come is still questionable, as a new hegemonic order remains ambiguous, with China ' showing not the slightest interest in challenging the Americans for leadership in shaping the institutions of the world economy' (Gowan 2009 p.28-9), the multi-polar order of the future seems ever more unpredictable.

The financial crisis has thrown into question whether a state-market condominium type form of governance is needed on the international level in order to facilitate the increasingly unpredictable and volatile expansion of the new financial era of historical capitalism. In the face of the global financial crisis, the crucial role of the state-market condominium seems to have strengthened as it ensures the maintenance of the financial order. Therefore, US power in international finance under the neoliberal state-market condominium has itself challenged the notion that the global financial crisis will result in a threat to structural *and* state power, but, it is the scale and scope of the phenomenon of contemporary financial expansion – that is so crucial to the financial crisis – that has through all its complexity and contradictions challenged the extent to which US structural power and state power can *continue* to thrive in international finance within the global political economy.

This analysis has also shown that the state-market condominium is crucial for the ability to shape international financial markets through processes of direct financing which served to extend US structural power. This extension of structural power is in turn vital for the ability of the financial sector to increase its maximization of capital accumulation, which in turn reinforces US state power. The volatility of the phase of financial expansion throughout the neoliberal-hegemonic era of historical capitalism has culminated in the global financial crisis of 2007 to the present, throwing into question the decline of the US and the rise of China. However, the main contender for hegemony against the US will have to ensure the dominance over the newly emerging international financial structures *and* the increasing value of capital accumulation within those structures, if it wishes to achieve hegemonic state power. This crisis has managed to reveal the strength of the neoliberal state-market condominium and its ability to rescue the power of the US state, however, as hegemony lies within the economic realm, the *immediate* threat to US power in international finance and thus hegemony in the global political economy is weak, but the long-term prospects for a dramatic change in the power structures of international relations, where China will surface to rival and indeed surpass the power of the US, remains strong, paving the way for an increasingly unknowable and volatile mutli-currency international financial system that reflects the ambiguity of an increasingly mutli-polar world order that is fast approaching on the horizon.

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