STRANGE BEDFELLOWS? BANKERS, BUSINESS(MEN), AND BUREAUCRATS IN GLOBAL FINANCIAL GOVERNANCE*

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Abstract

This paper explores the works of Susan Strange for insights into the (mis)management of the current global financial crisis. In particular, it analyzes the role that dominant knowledge and financial structures and their agents play in the diffusion of norms and common understandings of who should govern the global financial system, how, and according to what rules. The paper draws on critical international political economy to amplify Strange’s analysis of the nature and operation of knowledge structures and financial structures that condition common sense understandings about the governance of global capitalism. It examines the role of bankers, financial corporations and the bureaucrats of intergovernmental and private, financial associations in creating and sustaining this common sense. The paper explores the extent to which these conceptions of financial governance re-inscribe the separations between economics and politics and between the private and public spheres that Strange laboured so hard to upset. Arguing that “common sense” is not the same as “good sense,” the paper makes the case for upsetting and resisting dominant knowledge structures in order to develop critical and transformative understandings of the who, the how, and the nature of global financial governance.

Introduction

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood..... I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas.

John Maynard Keynes (1957: 383)

There is no power relation without the correlative constitution of a field of knowledge, nor any knowledge that does not presuppose and constitute at the same time power relations.

Michel Foucault (1977: 27).

Today, at the end of the century, the casino nature of the financial system has been widely acknowledged. And what we have today is much more of the same - more volatility, more uncertainty and more anxiety.... Money has indeed gone mad.

Susan Strange (1998:3)

With uncanny foresight Susan Strange in Casino Capitalism (1986: 1- 2) lamented that transformations in global finance were changing the persona of the banker. Bankers were once “thought of as staid and sober men, grave-faced and dressed in conservative black pinstripe suits, jealous of their reputation for caution and for the careful guardianship of their customers’ money.” However, they had become like “gamblers in a casino watching the clicking of a silver ball on a roulette wheel and putting their chips on red or black, odd numbers or even.” Her description of the great casino of global finance evokes the image of unregulated financial markets that were inescapably lurching towards crisis. She emphasized that the problem was the absence of governance and leadership. A series of “non-decisions” concerning the creation of systems for the provision and credit and management of debt and for the management of exchange rate markets had resulted in increasing speculative and volatile markets stoked by “chain-smoking young men all playing these games” (1986: 1). Strange identified the central problematique as a problem of governance and the absence of the leadership required to address the economic malaise of the 1980s.

However, the financial system had yet to undergo further transformation in the 1990s through deepened deregulation and the unleashing of risk-taking as a core financial incentive,
and indeed, as a commodity itself (Cutler 2012). According to Strange, technological advances and innovations in banking and credit instruments, the increasing size and scope of financial markets, further deregulation and central bank independence and self-regulation contributed to the “end of banking” in that “bankers no longer occupy the same special, reserved and protected role…. Commercial bankers have become investment banks and are increasingly tempted into proprietary trading- that is betting their own capital in the casino” (Strange 1998: 8). New financial instruments like over-the-counter (OTC) derivatives were developed that were highly lucrative and allowed investors to hedge against losses and pass on their risks to others by packaging and selling off debt while ensuring against future losses. However, Strange (1998: 32) observed that as a form of exchange, OTC trading is the “least transparent, in which the area of significant ignorance of what is really going on is most extensive.” “Extensive ignorance” is the quality she associated most closely with casino capitalism (1998: 32, note 9) and a condition that, prophetically, was at the epicenter of the current economic crisis. In addition, Strange was concerned about the overwhelming influence of self-interested agents and the unholy marriage of private authorities from banking, finance, and business and most skeptical, even pessimistic, about the governance contributions of international organizations and their bureaucracies.

In fact, a theme that dominates much of her work is the influence of deep structures that condition key processes in the global political economy. These include security, production, finance, and knowledge structures (1988). The last two are of most relevance to this discussion for Strange’s insight into the political significance of access to credit is one of her major contributions to our understanding of the global political economy and its contemporary condition. She argued that access to credit has become a central term of competition in the world, replacing the geopolitics of competition over territory and ushering in a new kind of politics that requires new ontological and epistemological understandings about the nature of power (1996). However, the central and determining influence of markets did not just occur spontaneously. As Karl Polanyi (1944) had shown, free markets are the product of intensive intervention, regulation, and legislation. The financial market was developed through an alliance of self-interested bankers and investors, complicit governments and international organizational bureaucracies and a network of credit rating-agencies and other private associations who developed the institutions and rules-of the game for global finance. Moreover, this alliance was formed within the context of dominant knowledge structures that conditioned belief systems.
about the nature and function of finance and credit, as well as about the acceptable means of governing them and the proper role of the state therein.

To what extent are Strange’s insights about the nature about global finance and global capitalism relevant to the ongoing financial crisis? This crisis is rocking world markets and is threatening to undo the Post World War Two dream of a unified Europe. This paper will examine Strange’s analysis of the problem in global leadership, drawing upon critical political economy traditions. It will argue that the problem of leadership has evolved into a full-fledged crisis of authority that is symptomatic of a deeper crisis of leadership of global capitalism (Gill 2012) and one implicating the expansion of private authority in global governance (Cutler 2013, 2012).

Part I explores Strange’s analysis of the centrality of dominant knowledge and financial structures in the constitution of the contours of the global political economy and of financial capitalism. It draws upon critical political economy, focusing on the “how of power” and how power is mobilized through dominant knowledge and financial structures to establish central bank independence as a grundnorm of the global financial system. Part II explores the “who of power” and examines, in a preliminary way, some of the key institutions and individuals who established norms justifying “Too Big to Fail” as the leitmotif and, indeed, the common sense of the day, along with related conceptions and practices of “Bail-Outs” and “Bail-Ins. These players participated in the construction and legitimation of common sense ways to manage the global financial system and are advancing laws and policies that ensure the continued expansion of financial capitalism, notwithstanding significant ruptures in common sense, social dislocation, and abject failures in global leadership. The final Part revisits Strange’s work for insights into possible solutions to address the continuing crisis of leadership in the global political economy.

**Part I: Theorizing the “How” of Financial Power**

In *States and Markets* (1988) Strange identified four dominant power structures: the security structure, the production structure, the financial structure, and the knowledge structure. She (1988: 115-6) observed that the “power derived from the knowledge structure is the one that has been most overlooked and underrated,” noting a need to develop an analytical framework for understanding the significance of knowledge structures. However, as Lynn Mytelka (2000: 39)
indicates, its substantive content “remained ill-defined.” In the effort to provide further substantive content to the conception of a knowledge structure this Part examines Strange’s contribution, drawing further insights from critical theory and critical political economy. First, Strange’s definition of structural power is reviewed and her definitions of the financial and knowledge structures are examined. These are augmented with insights into the knowledge/power nexus advanced by Michel’s Foucault’s (1997) conception of the “how” of power. The “how” of power concerns the ways by which power is mobilized in society through a variety of mechanisms that serve to naturalize certain norms and practices as beyond dispute, as “common sense.” The work of Antonio Gramsci (1971) on the significance of organic intellectuals in constituting dominant knowledge structures and common sense is also instructive in analyzing how certain ideas about governing global finance are achieving dominance and are being naturalized as the common sense of global financial capitalism. Here the role of key institutions and policy networks that many describe as “epistemic communities” are also considered.

Financial and Knowledge Structures

It is important to consider the context in which Strange was interested, analytically and theoretically, in financial and knowledge structures, for this is central to her formulation of the nature of power in the global political economy. Strange was critical of overly theoretical work that was disconnected from the real world functioning of power in the global political economy. She observed in States and Markets (1988:15) that “it is still true that most political science assumes a rather static economic backcloth to politics and that the dynamism so apparent in the real economic world is too often overlooked.” She cautioned against ideologically driven analyses and expressed profound doubts about the prospect for any general theory of international political economy: “What we should not try to look for, because it does not exist and therefore cannot be found, is an all-embracing theory that pretends to enable us, even partially, to predict what will happen in the world economy tomorrow. The ambition of the social sciences to imitate natural sciences, patterns so regular they govern social, political, and economic behavior, is and always will be, a wild goose chase” (1988: 16). She also noted the neglect of transnational economic relations, as in “relations across national frontiers between
social and political groups or economic enterprises”, including banks, corporations, religious leaders, universities and scientific communities, whose influence may be more important than that of states in determining outcomes in the global political economy (1988: 21). Neglected as well in international regimes analysis, then the dominant approach to studying the global political economy, is the question of “whose power those ‘principles, norms, rules, and decision-making processes’ most reflected” and “asking about the sources of such power: was it based on coercive force, on success in the market and on wealth, or on the adherence of others to an ideology, a belief system or some set of ideas?” (1988:22). These concerns she regarded as “structural questions about power”, about the nature of the relationship between authority and markets, and about who wields power in the global political economy and how (1988: 22-3).

Strange differentiated structural power from relational power and argued that the former “counts far more” than the latter. Relational power is defined as “the power of A to get B to do something they would not otherwise do”, while structural power “is the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and (not least) their scientists and other professional people have to operate. This structural power, as I shall explain it, means rather more than the power to set the agenda of discussion or to design (in American academic language) the international regime of rules and customs that are supposed to govern international economic relations. That is one aspect of structural power, but not all of it” (1988: 24-5). She proceeded to illustrate structural power with the authority wielded by Lloyd’s of London in the international market for insurance: “it allows big risks to be ‘sold’ by small insurers or underwriters to big reinsurance operators, thus centralizing the system in those countries and with those operators large enough to accept and manage big risks. Anyone who needs insurance has to go along with this way of doing things” (1988: 25).

Strange (1988:26-7) sketched her conception of security, production, financial, and knowledge structures mnemonically as a “geometric four-faceted triangular pyramid or tetrahedron (i.e. a figure made up of four planes or triangular faces). Each touches the other three and is held in place by them. Each facet represents one of the four structures through which power is exercised on particular relationships. If the model could be made of transparent glass or plastic, you could represent particular relationships being played out, as on a stage, within the four walls of the four-sided pyramid. No one facet is always or necessarily more important than
the other three. Each is supported, joined to and help up by the other three.” Strange goes to pains to emphasize that to understand power in political economy, one cannot focus only on one aspect, edge, or side of this power pyramid: finance and knowledge structures must be understood alongside and interrelated with security and production structures. For example knowledge structures related to, say, computers and information technology will necessarily inform, alter, and co-constitute the other structures of power in security, finance, and production. Strange’s perception of the equiprimordial nature of power in political economy complements and contrasts with traditional Marxian interpretations that understand the production and security structures of the economic base to be constitutive of the knowledge and finance of the political economic superstructure.

Strange identified financial power and the control of credit as a dimension of structural power that “has risen in importance in the last quarter century more rapidly than any other and has come to be “of decisive importance in international economic relations and in the competition of corporate enterprises” (1988). She noted how conventional Marxists, who stress the role of production structures as the driving forces in the global political economy, miss the key insight that the terms of competition and, indeed, indices of power have changed in the face of developments in technology and communications and innovations in financial transactions: “What they do not understand is that what is invested in an advanced economy is not money but credit, and that credit can be created. It does not have to be accumulated. Therefore, whoever can so gain the confidence of others in their ability to create credit will control a capitalist – or indeed a socialist – economy. So large have the financial requirements of industry and even of agriculture become in a high technology age that there would have been none of the economic growth the world has seen in the past four or five decades if we had had to wait for profits to be accumulated. They could only have been financed through the creation of credit” (1988: 30).

Indeed, the creation and management of credit and the control of the exchange rates of currencies are the two “inseparable aspects” of the financial structure (Strange 1988: 88): “A financial structure, therefore, can be defined 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” (1988: 88). She identified governments and banks as the central players in the creation of credit, while governments and markets are the key agents of exchange rate regulation.
The significance of financial innovation in transforming the global political economy connects the financial structure with the knowledge structure, for it is transformation in our knowledge about finance and how to create credit in innovative ways that has enabled the expansion of financial capitalism. Moreover, it is our lack of knowledge, or ignorance, of how new financial instruments, like OTC derivatives, operate that has injected a great deal of instability into the global financial system. Strange was prescient in her comment in States and Markets (1988:30) that in the world of finance “complex manifestations are too technical and arcane to be easily understood even by those professionally engaged in banking and finance.” She emphasized that “knowledge is power”:

… whoever is able to develop or acquire and to deny the access of others to a kind of knowledge respected and sought by others; and whoever can control the channels by which it is communicated to those given access to it, will exercise a very special kind of structural power. In past times priests and sages have often exercised such dominance over kings and generals. It is a structural power less easy to keep control over, more subtle and more elusive (1988: 30) ….. Today the knowledge most sought after for the acquisition of relational power and to reinforce other kinds of structural power (i.e. in security matters, in production and in finance) is technology. The advanced technologies of new materials, new products, new systems of changing plants and animals, new systems of collecting, storing and retrieving information – all these open doors to both structural power and relational power (1988: 31).

For Strange the knowledge structure “determines what knowledge is discovered, how it is stored, and who communicates it by what means to whom and on what terms.” The knowledge structure comprises both belief systems and the means through which they operate. She stressed that while access to knowledge is crucial in conferring authority, so too is the ability to withhold knowledge and to exclude others from knowledge. She believed the knowledge structure to be the least understood of all the power structures, which she attributed to the diffuse nature of and difficulty in quantifying knowledge. However, she recognized its significance in transforming the world economy through innovations in financial system management and risk management by transnational investment institutions. She described how corporations in the 1980s were acquiring their own captive digital equipment and information technology companies to produce specialized services for themselves: “Another politically important consequence of the change is that the capabilities and power of management in big enterprises are vastly
enhanced. One of the important prerequisites for the truly transnational enterprise... was the ability to exercise close control over distant subsidiaries and affiliates. Yet the information available to management and its power to have decisions carried out were still limited... that is, until satellite communications linking computers allowed the collection of data from the outlying centre (1988: 128).

In States and Markets (1988: 132) Strange identified several developments resulting from the increasing political significance of the knowledge structure. The first is that knowledge “competition between states is becoming a competition for leadership in the knowledge structure.” Whereas competition used to be over territory, land, and natural resources, today it is over technological leadership. The second development is the growing “asymmetry between states as political authorities in the acquisition of knowledge and in access to it”, with the United States clearly leading the information technology competition (1988: 133). The third development is that:

... change in the knowledge structure is bringing about new distributions of power, social status, and influence within societies and across state boundaries... Power is passing to the “information-rich” instead of the “capital-rich.” Indeed, it is information that unlocks the door giving access to credit, not the mere possession and accumulation of capital in whatever form. Just as industrial workers once came to look down on agricultural workers, so that the very word “peasant” become one of contempt and abuse, so the knowledge workers are coming to feel superior to the blue collar workers who carry out merely physical, manual work. Meanwhile, nationalist capitalist classes are being superseded everywhere by a transnational managerial class in which the social and functional distinctions between state and corporate bureaucracies are becoming rather blurred, and in which the life-styles of each resemble each other more than they do those of state officials or corporate managers who function only in a national milieu (1988 : 134).

Strange noted the importance of innovations in technology that were expanding the knowledge-base of banking and in States and Markets (1988: 130) quoted Walter Wristen, former head of Citigroup (now Citicorp), to the effect that “banking today is information.” This theme was further developed in Casino Capitalism and in Mad Money. In that latter (1998: 9), she identified technological change and innovations in the operation of financial markets as the most significant changes in the global political economy since the 1980s. Along with this came “the end of banking”: “bankers no longer occupy the same special, reserved and protected role in the system that they once did.” The entry of commercial banks into investment and the
emergence of non-bank institution, such as accounting, insurance and law firms, as major participants in finance have transformed the industry. Noting that most of the research on the economics of technological innovation relates to manufacturing, Strange observed that “comparatively little heed has ever been paid to the technical innovations used by the banks and in financial dealings, nor to the technical innovations devised by the banks themselves (and by their competitors) that changed the modes of operation of, and the services provided by, financial markets and institutions, and therefore the distribution of structural power in the political economy (1998 : 23-24). She sums these innovations up under three main headings: computers, chips, and satellites. These innovations have transformed the financial industry in terms of the transnational speed, knowledge transmission, and the integration of financial markets. But it is the development of new and largely little-understood transactions, as in the case of OTC and exchange-traded derivatives, that she singles out as “the most important and innovative change in the international financial system since the mid-1980s” (1996: 29). Strange observed that derivatives, while “a sophisticated way of managing risk”, are not new concepts, but took the form of futures contracts for the deferred delivery of goods as far back as the Middle Ages. She (1998: 30) drew on Conford (1995: 347) for the following definition of derivatives: “contracts specifying rights and obligations which are based upon, and thus derive their value from, the performance of some underlying instrument, investment, currency, commodity or service index, right or rate.” Strange noted the explosion in derivatives markets in the 1990s mainly in currency and interest rate contracts and attributed it to efforts by dealers to get around regulations, such as limitations on the interest payable on short term loans or capital account restrictions, as efforts to hedge against risks of changes in interest and exchange rates or commodities prices, and the unbelievably lucrative potential of these financial innovations. However, as the crisis unfolded in 2007-08 it was derivative trading that was at the core, with unregulated OTC derivatives holding centre stage. Strange was proved correct in her assessment that it was “OTC trading which is least transparent, in which the area of significant ignorance of what is really going on is most extensive” because they are traded off-market out-side the purview of clearing-houses. The deregulatory ethos that dominated the period had left significant regulatory gaps that “quick-thinking and agile financial entrepreneurs” were able to work to their advantage through the creation of innovative financial instruments that profited from cracks and chinks in the American regulatory system” (1998: 39). Indeed, it would seem that the market was
specifically deregulated to enable this kind of dealing in the OTC derivative market. The Commodity Futures Modernization Act, signed into law on December 21, 2000 by President Bill Clinton made clarifications such that most OTC derivatives transactions would not be regulated as “futures” under the Commodity Exchange Act of 1936 (CEA) or as “securities” under the federal securities laws. Instead, the banks and investment firms the Act refers to as “sophisticated parties” would continue to have their dealings in OTC derivatives supervised by their federal regulators under general “safety and soundness” standards, thus rejecting the Commodity Futures Trading Commission's (CFTC) wish for “functional regulation” of the market. In a televised interview former CFTC Chairwoman Brooksley Born indicated that “[the Act] ‘took away all jurisdiction of over the counter derivatives from the CFTC. It also took away any potential jurisdiction… on the part of the SEC, and in fact, forbid state regulators from interfering with the over the counter derivatives markets. In other words, it exempted it from all government oversight, all oversight on behalf of the public interest’ (PBS Frontline 2009).

Strange witnessed this failure of regulation in the final years of her life, concluding that it was this, and not innovation that was the root of the problem.

What may we draw from her analysis of the financial and knowledge structures to assist in understanding how the financial crisis unfolded and its potential mitigation? While Strange has identified the general environment of the global financial system and identified important transformations in the knowledge-base of the industry and the innovations that have injected considerable instability into the system, what is missing is a sense of causation. By this I mean an understanding of the processes by which knowledge is actualized as power over outcomes in the global financial system. She does not consider the constitution of knowledge and the important consideration that claims to knowledge are never neutral, self-evident, or apolitical. Some claims to knowledge become naturalized as “truth” and as authoritative, while other claims to knowledge are not, becoming or remaining, perhaps, folklore, speculation, or superstition. Indeed, Strange adopts what Peter Katzenstein and Stephen Nelsen (2013) refer to as a “rationalist and materialist” approach to IPE. She treats knowledge as something “out there” to be discovered, stored, and communicated or withheld, which she argues empowers the subject. But she does not offer the details of a sociological or constructivist account of where the knowledge about the financial system originates, how it operates, how it should or should not be regulated, or how it became the common sense of the time: an account that fully integrates
financial and knowledge structures into the analytics of global finance (see for example Drezner and McNamara 2013).

What was the dominant logic of the global financial system and by whose instrumentality and what processes was this knowledge transformed into financial innovations that were initially regarded as sound but came to destabilize the entire system? What was the outcome and where are we now? Finally, in Strange’s terms (1988:132) the question remains “Cui bono?” Who benefits from the global financial system? While some of these questions go to the “Who” of global finance and are addressed in Part II, there will nevertheless be overlap with the following analysis of how central bank independence rivaled competing regulatory norms and became a grundnorm and common sense of global financial governance.

Foucault, Gramsci, and the “How” of Financial Power

Strange’s insights into the political salience of knowledge structures resonate in many fields. Indeed, as Raewynn Connell (2010: 778) observed, “the idea that science, technology, information and knowledge drive social changes has now become extraordinarily popular.” This is particularly evident in the fields of International Relations and International Political Economy where the significance of ideas and norms as mechanisms of global governance are evident in notions of epistemic communities (Haas 1992; King 2005; Marcussen 2005), the role of intersubjective meanings in governance (Rosenau 1992: 4), norm diffusion and life cycles (Finnemore and Sikkink 1998; McNamara 1998; 2002), the importance of transnational policy communities, networks (Cohen 2011), and governance by experts (Quack 2010) and private authorities (Cutler, Haufler and Porter 1999; Büthe 2010).

However, while the political significance of those who are legitimized as authoritative through their claims to a monopoly of technical or scientific expertise or truth is not new, the precise manner in which this occurs in financial governance needs to be worked out. Contributions to understanding global financial governance as resting on a “valid social consensus on relevant rights and rules” (Cohen 1998: 145) or on a remarkable convergence on central bank independence (Hall 2008) are important but limited in their failure to address Strange’s more critical question of “cui bono”: who benefits from such consensuses and how? The presumption is that the recognition of a social consensus or normative convergence ipso
facto reflects the presence of or even constitutes a public good or interest. These studies do not address insights from critical political economy to the effects that this might rather be what Louis Althusser (1971: 170) referred to as a “méconnaissance” or a misrecognition, because such consensuses actually conceal the reconstitution and presentation of very particularistic and private goods and interests as universal, public ones. We might begin to elaborate Strange’s position to develop a critical, constructivist sociology of the global financial crisis with reference to the insightful contributions of Michel Foucault and Antonio Gramsci.

Foucault (1997) is known for his contribution to an understanding of power that departs from conventional approaches that treat power as a force or effect that is independent of its subject and issues only from the sovereign/state, as in top-down models of governance. Indeed, Foucault regarded power as pervasive and as operating through all institutions and social relationships. In exploring the nexus between knowledge and power Foucault (1997, 24) theorized a tripartite relationship between power, right, and truth, describing the “how of power” thus:

… trying to understand its mechanisms by establishing two markers, or limits; on the one hand, the rules of right that formally delineate power, and on the other hand, at the opposite extreme, the other limit might be the truth-effects that power produces, that this power conducts and which, in their turn, reproduce that power. So we have the triangle: power, right, truth….. What type of power is it that is capable of producing discourses of truth that have, in a society like ours, such powerful effects?

To Foucault, power is actualized through the recognition of certain knowledge as truth and hence as unassailable and authoritative. He identified four central analytical processes involved in the constitution of knowledge as a “discourse of truth”: the selection, normalization, hierarchalization, and centralization of knowledge. Each step involves the entire society (government, schools, prisons, family) in establishing very specific understandings about the world as truthful, because claims to authority demand and, indeed, require “truth” “in order to function” (1997: 24). This is achieved by the constitution of the individual as a willing “subject” of the powerful and simultaneously as a “relay” of power, operating in a network or capillary-like manner throughout society (1997: 28-9). For Foucault (1997: 29), “[p]ower functions. Power is exercised through networks and individuals do not simply circulate in those networks; they are in a position to both submit to and exercise this power. They are never inert or consenting targets of power; they are always its relays.”
This Foucaultian understanding of power may be captured, analytically, by extending Strange’s mnemonic and suggesting that her four-dimensioned pyramid of power stretches upwards capturing institutions that we typically consider as sites of global financial governance, such as national governments, international organizations and international financial institutions. But it also extends downwards depicting the structure’s inscription into the subjects of power who participate in its ongoing constitution and reproduction: the bankers, business(men) and bureaucrats of global finance, and the societies in which they operate. The knowledge and financial structures thus both form the conditions for and structure the global political economy, reaching within the agents operating in the structure to create subjectivities, identities, and figures that are born into these rules, operate within them, and contribute to their reproduction.¹ Strange recognized that the legitimacy of knowledge structures rested upon a shared belief system and emphasized that such structures operate through consent and not coercion:

More than other structures, the power derived from the knowledge structure comes less from coercive power and more from consent, authority being conferred voluntarily on the basis of shared belief systems and the acknowledgement of the importance to the individual and to society of the particular form taken by the knowledge – and therefore the importance of the person having the knowledge and access and control over the means by which it is stored and communicated (1988: 118).

But how is it this consensus over a belief system achieved amongst such a diverse universe of identities and interests involved in global finance? Are not the financial institutions, as the vendors of financial services, and their purchasers adverse in interest? Indeed, is not a central bank in a conflict of interest, as a “private institution with a public character” (Hall 2008: 131)?

The work of Antonio Gramsci (1971) is insightful in understanding this complex mix of private and public elements in the achievement of societal consensuses. Gramsci is famous for articulating the role of the “organic intellectual” in forging the consent of society to authority as the mechanism by which the powerful are able to cement and consolidate their power. Gramsci insisted that the process by which the ruling class established the conditions necessary for achieving control, which he termed “hegemony,” cannot be secured through coercion alone, but required capturing agreement from the entire society that the norms and ideology advanced by

¹ Louis Althusser (1971) refers to this process as the “interpellation of the individual” as both a subject and an agent in the continuous reproduction of capitalist society, which is beyond the scope of this discussion. See Cutler (2010) for analysis of the interpellation of the transnational corporation as the neoliberal subject under transnational capitalism.
the ruling class in fact serve the public interest and constitute “common sense”. In his famous equation “state = political society + civil society,” “in other words hegemony protected by the armour of coercion,” Gramsci (1971: 263) located hegemony or consensus within civil society. The state is thus regarded as combining relations of coercion associated with the military and state laws, as well as consent associated with the voluntary relations of civil society. But hegemony, as in the balance between consent and coercion, he insisted, emerges from civil society. His model was thus both a top-down and bottom-up model, much like that of Foucault, and the proposed extension of Strange’s mnemonic. The bottom, however, is the critical element in forging this consensus for without a societal basis, claims to power remain only coercive and not authoritative/right or truthful.

But how is this consent forged? To Gramsci it is the ability of the organic intellectuals to universalize the interests of the powerful as the interests of the entire society and as the public interest that forms the foundations for common sense. This involves getting the entire society to accept that the promotion and protection of the interests of the dominant forces in society in fact serve the interests of all. How does this unfold in the world of global finance? Here the foundation of support for central bank independence illustrates the construction of an important norm in the common sense of financial capitalism.

Central bank independence from political interference grants central banks tremendous authority over the supply and price of credit and money, as well the ability to delegate authority to private financial actors, like bond rating companies (Hall 2008: 1-2). This is legitimized by economic models that posit independence to be crucial to achieving credibility in the market (ibid.). It also requires a public convinced of the trustworthiness of central bankers as “neutral, sober” analysts of appropriate “monetary medicine”, with a faith that neoliberalism and “market-based decision making is superior to politically based decision making”(Hall 2008: 172). However, as Hall (2008: 179) notes, the “social purposes” of banking are not neutral but have very material distributional consequences and have changed over time, reflecting different constellations of interests and the inherently political nature of banking regulation. The Bretton Woods system was “designed to secure currency stability and stave off balance of payments crises with the flexibility to pursue domestic priorities through Keynesian economic policies (Kelsey 2003: 157), but with the collapse of the system and the advent of neoliberalism and monetarism there was a significant shift in the social purposes of policies governing money and
banking. Capital mobility and controlling inflation became the dominant norms and “rational expectations” theory and supply-side economics emerged as theoretical challenges to monetarism. Under this ideological complex, achieving expectations of price stability became the main social purpose of monetary policy and central bank independence was the institutional means for achieving these purposes. Kelsey (2003: 160) argues that rational expectations theory “was reified as an objective science. The discourse of ‘rational expectations’, ‘sound monetary policy’, ‘fiscal discipline’, and ‘economic fundamentals’ was imbued with neutrality and virtue” and “[c]entral bankers became guardians of this common good” as “non-political experts engaged in complex technical tasks”. However, she (2003: 156) also notes, echoing Strange, that this attempt to “depoliticize” central banks was in reality “a means for redistributing wealth and power”: “monetary policy and exchange rates are vehicles through which national governments control the creation of money and influence its value so as to distribute resources among competing interests…. This makes currencies, exchange rate mechanisms and monetary policies intrinsically political.”

How were the political, distributional dimensions of central bank independence sold to the general public?

In order for central bank independence and related norms of transparency and credibility to emerge as dominant social constructs they had to be neutralized of their distributional consequences and embraced as serving public purposes. Hall (2008) shows how these norms evolved through a complex of private and public actors and institutions, national, international, and transnational who shared commitments to rational expectations theory, which posited the “governance capacities” of “the expectations of consumers, business enterprises, and financial market participants” to achieve pricing stability (ibid., 197).

In fact, studies of the achievement of the central bank independence in a number of countries reveal the central role played by financial experts who functioned as the organic intellectuals in convincing recalcitrant parties of the overall value and legitimacy of central bank independence. In Turkey, an “epistemic community” comprised by the governors of central banks, as well as “policy and institutional entrepreneurs” linked national and transnational elites together in support of enhancing the independence of the central banks from state controls (Bakir 2009). Important in what is described as “a radical policy reform” was the process of norm

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2 See Bakir 2009 for the range of competing interests that are identified by different accounts at the domestic level (private interest based, political interest based, and cultural based theories) and international or transnational levels (ideational entrepreneurs; economic pressure) of central bank independence.
diffusion catalyzed by the financial crisis (Bakir 2009: 572). Bakir shows how central bank independence was not on the agenda in Turkey for either domestic or foreign bankers in the 1990s due to “perverse incentives” that returned huge profits to both in the existing system, notwithstanding pressures from the IMF and the Turkish Central Bank. However, this changed as the Central Bank acquired more “knowledge authority”, and eclipsed the Treasury and the State Planning Organization. The policy shift involved the various steps in norm diffusion identified by McNamara (1998): policy failure; the development of a new policy paradigm to address the failure: and then emulation by others of the resulting policy. Crucial was the work of the “policy entrepreneur” who “mobilizes ideas, resolves conflicts, and steers their implementations for policy and institutional changes” (Bakir 2009: 572).

In Europe as well, King (2005) argues that the existence of a crisis situation requiring solutions to a complex problem enabled the translation of knowledge-based power into effective influence. He notes that “[a] process of policy failure, paradigm innovation and policy emulation created an environment where the ideas of an epistemic community were able to influence policy” (113). In this case, “paradigm innovation emerged that linked low inflation with central bank independence” and examples from New Zealand and Europe, certain crucial academic reports circulating in the Anglo-American and transnational community of bankers, as well as the views of officials like Alan Greenspan of the US Federal Reserve, and others from the Bundesbank and Banque de France solidified this linkage (King 2005:114).

The construction of the belief that central bank independence serves broader societal interests and purposes also requires organic intellectuals to advance the belief that neoliberalism serves the common good as “common sense”, and to recognize but dispel the views of those who disagree. Huw McCartney (2008) shows that in the face of financial crises organic intellectuals in Germany and France were able to forge a “huge intellectual consensus” about certain causal beliefs as being empirically true. This assisted in convincing people that central bank independence did not serve narrow particularistic interests, but served universal interests and was thus unimpeachable as universal truth. More specifically, McCartney (2008: 435) examines the work of two prominent research institutes which revealed “a clear tendency to portray

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3 McCartney here quotes Bernhard Speyer, of the Deutsche Bank on the benefits of financial market integration under neoliberal policies.

4 The German CESifo Group (Centre for Economic Studies and Institute for Economic Research) and the French CEPII (Centre d’Etudes Prospectives et d’Informations Internationals). Both are widely regarded as sources of
processes of neo-liberalism as universally beneficial” and quoting Gramsci (1971: 181) “transposing economic/corporate interests to a ‘universal plane’.” Crucial to the role of these research institutes as organic intellectuals was their ability to “confront alternative common senses” by acknowledging, for example, objections to the “truth” that “trade and financial liberalization promote growth”, recognize cases where this truth does not hold, but then dispel them as lacking “clear and robust empirical proof” (Mccartney 2008: 439). Mccartney (2008: 399-440) argues that “this process of considering, confronting and countering is but one means” employed “to formulate a dominant common sense” by presenting the “particular interests” of those benefitting from liberalization as “common sense to wider social groups”. This process has been very significant in maintaining public support for financial liberalization in the face of the dramatic failure of financial markets to adequately “self-regulate” during the 2008 financial crisis. For example, organic intellectuals with CSEinfo recognized that while large corporations have “dominated the drafting of the texts of international economic agreements” “so as to promote the interests of those producers” their “interests are not necessarily harmful to society” and in any event, as another report finds, economic crises are a “necessary, if regrettable, consequence of liberalisation” (original emphasis, Mccartney 2008: 440, quoting Tornell and Westermann 2004).

Important to note is that the recognition of defects in the rationale for continuing financial liberalization does not signal a failure of the organic intellectual. This is because “the intellectual does not need to ‘sugar-coat’ neo-liberalism to secure the blind and ‘cheerful’ acceptance of subaltern groups. It is precisely through the intellectuals’ ability to articulate the need for ‘neo-liberal’ reform so as to present it as the ‘only alternative’, given the contemporary crises, that their social function is achieved” in achieving neo-liberal common sense that access to the world economy provides benefits for all (Mccartney 2008: 442).

It is interesting to consider how now, in an alleged “post-crisis” world, scholars, financial experts, and market participants were asked about the implications of the crisis for central bank independence and in an uncoordinated response “a surprising degree of consensus emerged” concerning the need to preserve central bank independence, even though they recorded differences in opinion on appropriate central banking policies (Reichlin and Baldwin 2013: vii).

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economic “common sense”. The former is comprised by “leading figures in the business world, corporations, banks, insurance companies, and trade associations. The latter’s membership is comprised by similar leading business figures, as well as French government and administrative ministers and directors.
Clearly the construction of common sense involves key figures directing attention to the “Who” of global finance and a discussion of the main players in the construction of global financial common sense.

**Part II: Analyzing the “Who” of Financial Power**

While Strange placed the governance role of private actors, like business corporations and key public figures at the centre of her analysis of the relationship between states, markets and firms, she did not develop a sociological analysis of the significance of private authority. Her reference, cited above, to the emergence of a “transnational managerial class” anticipated important studies that were to follow by scholars like Robert Cox, Stephen Gill, and others interested in transnational class formations under global capitalism (see overview in Robinson 2013). The emphasis on technological expertise is also evident in much of the work today on the significance of experts in global governance (Quack 2010). These themes were never fully developed in her work, although she recognized the foundational significance of classical thinkers and social theorists, like Nietzsche, Hegel, Weber, Plato, Aristotle and more modern theorists like Habermas, Foucault, Popper and Lukacs (1988: 132).

Notably absent in her analysis is the role of private actors in the constitution and management of financial and knowledge structures. Today we have a much greater appreciation of the significance of transnational networks of private actors, including banking and non-banking institutions, such as accounting and law firms, industry associations, credit-rating companies, and arbitrage traders in constructing global financial and knowledge structures (Katzenstein and Nelsen 2013; Sinclair 2005; Cutler 2011, 2003; Cohen 2008, 2011). Indeed, much of this work is inspired by Strange’s path-breaking studies on the international political

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5 “Well aware of my own limitations, I have made no references in the course of this brief survey to the knowledge structures of the international political economy to the active debate conducted by philosophers, especially in Europe, on the nature of knowledge, or the relations between power and communication systems or on the role of ideology in defining the goals of knowledge and thus determining in some degree the findings of social ‘science’ .. Such debates are not on the whole conducted in a language easily understood by me… they are debates with roots going back at least to Nietzsche, Hegel, and Weber, and some would say to Plato and Aristotle. The most influential modern contributors have been Jurgen Habermas, Michel Foucault, Karl Popper and Georg Lukacs” (Strange 1988: 132).
economy and thus provides useful extensions of her work. We might draw on her insights to construct a cast of characters and institutions to assist in exploring the “Who” of global finance.

Setting the Context for Private Authority

In the United States the repeal of the Glass-Steagall Act in 1999 removed significant restrictions on the securities activities of commercial banks and affiliations between commercial banks and securities firms, consolidating a number of deregulatory reforms moving global finance to even greater speculative heights or, perhaps, more appropriately, lows, anticipated in Strange’s last book, Mad Money (1998). Commercial banks, investment houses, accounting firms, insurers, rating-agencies and other public and private actors became wired into the global financial system as a market participants engaged in the great games of casino capitalism where “greed and fear” reign (Strange 1998:139). What differentiated the new from the old system was the increasingly predatory nature of global finance and global capitalism, which Strange predicted but did not live to see manifested financial crisis of the 2007-08.

Important structural changes in the global political economy associated with financial deregulation transformed banking, contributing to its casino-like nature. Shifts from relationship to transactional banking and the emergence of shadow banking encouraged risk-taking. In addition, globalization and concentration expanded the banking industry, both geographically and substantively.

Regulatory liberalization, along with technological developments, contributed to three important structural developments which profoundly changed the financial landscape from the 1970s onwards. First, traditional “relationship” banking (on balance sheet) was increasingly complemented by “transactional” banking (largely off balance sheet) based on securitization of traditional bank assets financed through wholesale funding. A long chain of intermediaries thus developed (the “shadow banking” system) to link ultimate borrowers and ultimate lenders. Second, the financial system became increasingly globalized. Not only did gross international capital flows increase enormously, but banks from the advanced market economies increasingly established a local presence in other countries. Third, there was a significant degree of consolidation, with large financial firms not only gaining relative share, but also expanding the range of activities in which they were involved (White 2013: 4)
The key players in this game of casino capitalism are the financial experts, central bankers, financial firms and institutions, public and private, national and transnational, engaged in the construction of the knowledge and financial structures that govern the global political economy. As Rodney Hall (2008: 5) observes, global financial governance is a system of rule “based on systems of distributed authority networks among both public and private actors that are strongly dependent upon intersubjectively shared meanings…. at the national level, at the supranational level, and at both the public and private transnational levels.”

The focus here is on the construction of the normative foundation for policy responses to the crisis and the acceptance of Too Big to Fail, Bail-Outs, and Bail-Ins as the grundnorms of crisis mitigation. In addition, particular emphasis is placed on the work of the International Swaps and Derivatives Association (ISDA), which is the private transnational industry association that developed the standard contract utilized in the industry for derivatives and swaps and forms a “form of transnational private rule-making” (Morgan 2010: 25). The ISDA set the rules governing the derivatives market and when the market collapsed it was to the ISDA that public and private actors turned for the solution, allowing what I (2012: 63) refer to elsewhere as rather like “letting the fox guard the hen house”!

During the period of 1991 to 2004, the large banks went through a merger boom which was encouraged by regulators introducing at first a de jure and then de facto policy, “Too Big to Fail”. Banks exceeding a certain size limit were viewed as too important to allow to fail, and so it was deemed in the public interest to have governments intervene to bail them out. This policy was introduced officially by bank regulators in 1984 following the Continental Illinois Crisis, then supposedly eliminated by the Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991. However, it was effectively implemented during the global financial crisis of 2007-08 when the US Federal Government gave billions of dollars of loans to bail out banks that were either TBTF or too interconnected (for example, Bear Stearns, AIG, Citigroup, and Bank of America) to be allowed to wind down without a merger assisted by the US government and other major Wall Street banking institutions (see Brewer and Jagtiani 2009). While the FDICIA ostensibly eliminated an overt TBTF policy, its text effectively set the conditions to formalize bail-outs by specifically allowing a TBTF bail-out “when banking organization’s failure would have serious adverse effects on the economic conditions or financial stability of the economy”

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6 I have run out of time to analyze the ISDA but will do so in the next draft.
and instituted a policy mechanism and approval processes involving two-thirds of the FDIC Board, two-thirds of the Federal Reserve Board, the Secretary of the Treasury, and the President of the United States (see Brewer and Jagtiani 2009: 2).

The “Bail-Out”, that is, government intervention to ensure a banking institution remains solvent and functioning through a financial crisis, involves using a variety of tools which include, inter alia, troubled asset purchases, low-interest loans, and assisted mergers (where the government finances some of the merger costs of a troubled institution with another one). These became the primary tools of the TBTF policy by the time the financial crisis hit in 2007-08. However, since then, a transnational policy consensus has been emerging among state regulators concerning the need for an alternative mechanism for resolving systemically important financial institutions, the “Bail-In”. A 2012 IMF paper entitled “From Bail-Outs to Bail-In: Mandatory Debt Restructuring of Systemic Financial Institutions” describes the central concept of the Bail-In as “a statutory power to restructure the liabilities of a distressed Systemically Important Financial Institution (SIFI) by converting and/or writing down unsecured debt on a ‘going concern basis’.”. In the “Bail-In” model, the concerned SIFI continues to operate as an on-going legal entity. “The idea is to eliminate insolvency risk by restoring a distressed financial institution to viability through restructuring of its liabilities and without having to inject public funds… the aim is to have a private-sector solution as an alternative to government funded rescues of SIFIs” (Zhou et al. 2012) What this means in practice is that a bank’s creditors and depositors will see a levy on their holdings in the bank. The Bail-In model has been in development in the policy circles of transnational capitalism and the organic intellectuals of the central banks for some years now. It was discussed in a joint Bank of England and US FDIC paper in late 2012 entitled “Resolving Globally Active, Systemically Important, Financial Institutions”. The model was also included in the powers the Canadian Conservative Government granted to itself in the 400 page Federal Government budget tabled in the House of Commons on March 21, 2013, entitled “Jobs, Growth, and Long Term Prosperity: Economic Action Plan 2013. In this the Conservative Government proposed “to implement a ‘bail-in’ regime for systemically important banks. This regime will be designed to ensure that, in the unlikely event that a systemically important bank depletes its capital, the bank can be recapitalized and returned to viability through the very rapid conversion of certain bank liabilities into regulatory capital” (Government of Canada 2012: 145). This policy has evolved
without public input or knowledge. Indeed, most ordinary people were unaware of the concept until its first attempted implementation during the Cypriot banking crisis of March 2013.

In Cyprus, the country’s banking sector loan to GDP was over 800%, which was fed in part by the immense offshore accounts that went into Cyprus’s fractional reserve banking system and were in turn then lent out to investors in Greek real estate, banks, and corporations, which themselves became distressed. This forced Cyprus to officially ask the “Troika” – the IMF, European Central Bank, and the European Commission – to bail-out their two largest banks – the Bank of Cyprus and Cyprus Popular Bank. The Troika proposed as part of the bail-out package a one-time bank deposit levy of 6.7% for deposits up to €100,000 and 9.9% for higher deposits for all domestic bank accounts. Savers were to have their deposits turned into equities in the banks, and measures were put in place to prevent withdrawal or transfer of moneys that may be included in the levy (Hewitt 2013). After impassioned demonstrations and violence in the streets of Cyprus, the country-wide levy was eventually dropped, however, the bail-in idea as part of any bail-out was solidified. As then President of the Eurogroup of Finance Ministers and the Finance Minister of the Netherlands, Jeroen Dijsselbloem, revealed the Cyprus rescue would be used as a template for similar European bank rescues. Dijsselbloem commented: “We should aim at a situation where we will never need to even consider direct recapitalization […] I think the approach needs to be, let’s deal with the banks within the banks first, before looking at public money or any other instrument coming from the public side. Banks should basically be able to save themselves, or at least restructure or recapitalise themselves as far as possible” (quoted in Baker 2013).

That the Canadian Government should embrace the Bail-In with virtually no public consciousness is instructive about the role of the organic intellectual in the Canadian setting. Canadian politics is well-known for its elitist, top-down practices of executive governance and also for the close ties between government, both federal and provincial, and business. However, in this case, it was arguably the individual contribution of Mark Carney that was responsible for the almost invisible embrace of the Bail-In model. Carney exemplifies the organic intellectual in several ways: in his aim to reconcile the private property interests of banks and investment firms with the public interest of regulators and governments; in his popular identification as a ‘tough’ regulator on the banks that has the interest of the wider economy in mind. Indeed, Carney may
be seen as socializing the interests of the global banking elite. As Governor of the Bank of Canada during the financial crisis and as Chair of the Financial Stability Board (FSB), an international body designed to coordinate national banking practices and develop standards, Carney is widely regarded as possessing the financial common sense that enabled Canada to weather the crisis handily (see, for example, Lynch 2010). In an interview with *Euromoney Magazine* soon after taking office as Governor of the Bank of England, Carney said: “The interests of the private financial community should be absolutely aligned with those of the regulatory community to grow the real economy in a sustainable way. And the more enlightened members of the financial community have that perspective” (Verma 2012: 2). One interviewer prefaced his comments with the following observation: “Carney cuts a statesman-like figure, rising above partisan affiliation, respected even by his detractors, and consistently open to dialogue” with many bankers whom are critical of the intellectual and operational thrust of Basle III that Carney sees his job as implementing (Verma 2012: 3).7

It is easy to see how Carney was able to understand the position of bankers and business(men) given his thirteen years of experience working toward progressively more senior positions in Goldman Sachs in the years prior to joining the Bank of Canada as Deputy Governor. He undoubtedly had a good sense of the arguments of bankers for a light hand regulation, which he himself would have claimed in his work with Goldman Sachs in Russia in 1998 following the collapse of the Soviet Union. Goldman’s practices in Russia during that time have been subsequently criticized for advising Russia on its liberalization policy, while simultaneously profiting by using derivatives markets to bet against the country being able to repay its debt (Scoffield 2008).

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7 Verma reports: “In September 2011, at a now-infamous closed-door meeting in Washington of global bankers, under the purview of the Financial Stability Board (FSB), JPMorgan chief executive Jamie Dimon launched an ill-tempered tirade against Mark Carney, Bank of Canada Governor [...] Dimon charged that the Basle III framework was ill conceived both in theory and in practice and would greatly increase the cost of capital in an already subdued global economy. Dimon also argued that the capital surcharge for systemically important institutions (SIFIS) was disproportionate and, in particular, penalized US banks in capital calculations.” Rick Waugh, Chief Executive of Scotiabank, who witnessed Dimon’s attack on Carney said to Sid Verma of *Euromoney*: “Even when he had that unfortunate incident -- and he has had many since then -- that has not stopped him from collaboration. He is aware of the risks of Basle III; he is concerned about its complexity and encourages dialogue with the private sector. So that's his strength -- that he is trying to understand [our] position” (Verma 2012: 3).
Gordon Nixon, Chief Executive of Royal Bank of Canada agreed with other members of the banking community about Carney: "He acknowledges the fact that the complexity and overreach of regulation inflicts economic damage and he is fighting to achieve a better balance between regulation and growth within a very constrained political context. I would rather have him fighting for that balance than anyone else I have ever met in the regulatory or political world" (quoted in Verma 2012: 3). The former Bank of Canada President, David Dodge, told Eddie Goldenberg, the top aide to then Canadian Prime Minister Jean Chretien, in 2003: “I just hired my successor… It's this great guy I just got from Goldman.” He informed Goldenberg, who had never heard of the man, that Carney was a “deal-maker” (Scoffield 2008). 8 Chris Ragan, an economics Professor at McGill University who has spent time as an adviser at the Bank of Canada commented that “What he may not yet have is the wisdom that comes from being around there [at the central bank]… Mark doesn't have that, but Mark has something else. He's spent 15 years behind the scenes, making deals. I think that's valuable experience” (quoted in Verma 2012).

Carney has consistently worked at the interface of government and finance, reforming markets, selling off state assets and companies, and providing the most flexibility for capital to operate in an economy. These activities occupied him first, as an advisor to the Russian Government in 1997-8 on behalf of Goldman Sachs, then as an advisor to the Canadian state when he was seconded from the Bank of Canada to the Ministry of Finance to facilitate the privatization and devise the method for the sell-off of the assets of then-national oil company Petrocan (Scoffield 2008). The close connection between bankers and government bureaucrats is evident in the following quotations from NY Times article:

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8 The Whitehorse-born Carney, middle child to a school Principal and a Teacher, was educated abroad, at Harvard and Oxford, and spent most of his adult life outside the country, still a “mystery man around the capital” in 2003, according to the Globe and Mail (Stafford 2008). Carney began his term at the Bank of Canada as Deputy Governor August 5, 2003 and began the job of Governor of the Bank of Canada on February 1, 2008 (see Scoffield 2008).
The power and influence that Goldman wields at the nexus of politics and finance is no accident. Long regarded as the savviest and most admired firm among the ranks – now decimated – of Wall Street investment banks, it has a history and culture of encouraging its partners to take leadership roles in public service.…

It is a widely held view within the bank that no matter how much money you pile up, you are not a true Goldman star until you make your mark in the political sphere. While Goldman sees this as little more than giving back to the financial world, outside executives and analysts wonder about potential conflicts of interest presented by the firm’s unique perch (Dealbook 2008).

Indeed, analysts wonder why Mr. Paulson, Obama’s Secretary of the Treasury responsible for the US Government’s response to the 2008 Financial Crisis, hasn’t hired more individuals from other banks to limit the appearance that the Treasury Department has become a de facto Goldman division. “He’s brought on people who have the same life experiences and ideologies as he does,” said William K. Black, an Associate Professor of Law and Economics at the University of Missouri and counsel to the Federal Home Loan Bank Board during the savings and loan crisis of the 1980s. “These people were trained by Paulson, evaluated by Paulson so their mind-set is not just shaped in generalized group think – it’s specific Paulson group think.” (Dealbook 2008).9

The normative evolution of Too Big to Fail, Bail-Outs and Bail-Ins illustrate the work of organic intellectuals in managing the interfaces of government, finance, and industry. It also reveals the formation of very clear transnational connections between Anglo-American and European governmental and financial elites. However, the Canadian case creates significant doubt about the extent to which society has bought-into the working relationship between state, finance, and industry. This raises questions about the sustainability of the current common

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9 The following reflect general opinions concerning the legitimacy of regulators moving back and forth between government and industry: “There is no conspiracy,” said Donald C. Langevoort, a Law Professor at Georgetown University. “Clearly if time were not a problem, you would have a committee of independent people vetting all of the potential conflicts, responding to questions whether someone ought to be involved with a particular aspect or project or not because of relationships with a former firm – but those things do take time and can’t be imposed in an emergency situation.”…. “There are people at Goldman Sachs making no money, living at hotels, trying to save the financial world,” said Jes Staley, the head of JPMorgan Chase’s asset management division. “To indict Goldman Sachs for the people helping out Washington is wrong” (Dealbook 2008).
sense, which does not appear to emanate from a deeper societal consensus, but rather suggests significant fractures in leadership.

Part III: What After “Westfailure”? 

In 1999 Strange declared the Westphalian system to be an “abject failure” in controlling financial markets and capitalism, in protecting the environment, and in producing a socio-economic balance between the rich and the poor, referring to the system with her characteristic wit, as a “Westfailure system”! She expressed considerable pessimism and frustration with the possibilities for reforming the existing financial architecture and articulated the need for new ways of thinking and doing “politics.” What insights may we glean from her work in terms of solutions to the current economic malaise?

To begin, she had no faith in international organizations and was deeply suspicious of private mechanisms of governance. Both the International Monetary Fund (IMF) and Bank for International Settlements in Basle (BIS) failed as global regulators. The officials of the former, she (1999: 349) argued are “mostly economists” and “have no experience that helps them catch out wily and secretive bankers when they lie or cover up their business.” As for the BIS, its response to the Asian Financial Crisis in letting banks manage themselves was like “trusting the poachers to act as gamekeepers” (ibid: 349). Strange cited a 1997 survey of the City of London which found that “most people - bankers included- regarded ‘bad management at the banks’ as the no. 1 threat to the stability of the system” (ibid: 349, note 10). National systems of regulation were equally ineffective in keeping up with “technological innovations in financial dealing and the almost-instant mobility of capital across borders and currencies” (ibid, 350). As a result a “dangerous gap is therefore opening up between the international institutions that are unable and unwilling to discipline the banks, and the hedge and pension fund managers and the markets, and the national systems of supervision and control…” (ibid: 350).

Strange (1999: 353) recognized criticisms of governance by private transnational authorities and their involvement in the development of financial and credit risks as new terrains of accumulation, expressing sympathy with neo-Gramscian conceptions of a transnational capitalist class, or a “transnational interest group with powerful levers over national governments including that of the United States and members of the European Union.” However, she (ibid.)
cautioned against assuming “more solidarity and uniformity than in fact exists” between big and small businesses. Neo-Gramscians argue that today the management of financial risk through experts and transnationally organized private trade and industry associations is constitutionalizing speculative risk-taking as an integral operation and part of “common sense” of capitalism (Gill and Cutler 2014). This is a central activity of financial experts and the privileging of expert knowledge delivers power to these experts and is changing the balance between public and private authorities. Indeed, the role of financial experts in crafting the deals being made to address the ongoing financial crisis in Europe and elsewhere re-inscribes the separation between economics and politics that Strange spent her career challenging. It also reinforces the tendency of market civilization to subordinate politics to economics. These consequences in turn raise concern about the legitimacy of contemporary financial governance and place the normative implications of “who gets what” from financial governance front and centre. Returning to Strange’s question of “Cui bono?” we need to investigate the potential for a “new common sense,” which has more in keeping with Gramscian understandings of “good sense.” According to the latter formulation, good sense is self-reflexive understanding accompanying transformative political praxis. “Good sense” in the current historical conjuncture means most basically a sensibility that upsets top-down governance and brings a semblance of democracy to global financial governance. This is a tall order. However, fractures in common sense are evident in civil society challenges, as in the Occupy Movement, in the opposition developing in many countries, such as Greece, who are facing severe post-crisis austerity programs, in the Latin American turn to the left, and in the escalation of strikes in China (see Robinson 2013). The return in many parts of the world of ultra-right wing, fascist or neo-fascist political parties, as in Columbia, Honduras and Mexico, the Tea Party in the USA, and their Canadian Conservative Party equivalent, recall Strange’s fear about what the disjunction between the global political economy and its leadership might portend. Strange commented in Mad Money on the first round of financial deregulation, recalling views that she expressed earlier in Casino Capitalism:

Most of these choices were American ones and related to the country’s external relations... There was a general indifference to what American banks did outside the United States going back to the early 1960s. The trend toward deregulation of what they were allowed to do at home started in the mid–1970s with the abolition of fixed commissions for share dealing. In 1980 a further big step was taken in the Depository Institutions Deregulation and Monetary Control Acts.... In part this was a response to
competition from London, in part ideological. My concluding comment anticipated the bailouts of the 1990s: “The end result of ‘monetarist’ policy may easily turn out to be the exact opposite of its ideological intentions. Instead of freeing the private sector and the market economy from the toils of state intervention, it may actually end, as in Mussolini’s Italy – in involving the state more extensively and more permanently in industry and business than it had ever been before (Strange Casino Capitalism, 1986: 58.) (original emphasis, Mad Money 1998: 7).

Strange’s early warning of this transition from a relatively free, market economy to a more controlled and oppressive political economic system was especially prescient in light of the Bail-Outs of 2008-09 and the spectre of Bail-Ins of today and tomorrow. The common sense of global financial governance appears to be a construct of bankers, business(men) and bureaucrats, hinging upon scant societal consensus. This is an unsustainable situation and portends a deep crisis in global leadership. Moreover, it is a crisis that was at the forefront of Strange’s thinking for some time.
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