Article

Competition
& Change

Competition & Change
2015, Vol. 19(2) 113–128
© The Author(s) 2015
Reprints and permissions:
sagepub.co.uk/journalsPermissions.nav
DOI: 10.1177/1024529415571868
cch.sagepub.com

American empire and the relative autonomy of European capitalism

Leo Panitch
Political Science, York University, Canada

Sam Gindin
Political Science, York University, Canada

Scott M Aquanno
Community Development and Policy Studies, University of Ontario, Canada

Abstract

This article examines the relationship between European states and the informal American empire following the Second World War. Building on neo-Marxist theory, it argues that any attempt to understand the political response to the ongoing euro crisis has to consider the deeper determinations of the trajectories of the states of North America and Western Europe through the course of the making of global capitalism since 1945. This involves, in particular, taking seriously the leading responsibility that the American state has had, and still has, for securing the conditions for capital accumulation internationally, even while other capitalist states retain their 'relative autonomy' within the informal American empire.

Keywords

Relative autonomy, euro crisis, American empire, neoliberalism, capitalism, financialization

Introduction

When the first great capitalist crisis of the twenty-first century erupted in 2007–2008, predictions that countries would withdraw from the US-centred global economy through protectionist measures were quite common. Many European commentators in particular expressed considerable *schadenfreude* at the damage that 'Anglo-American capitalism' had

Corresponding author:
Scott M Aquanno, Community Development and Policy Studies, University of Ontario, University of Ontario, AL XX, Canada.
Email: scott.aquanno@uoit.ca

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

inflicted on itself through its lack of responsibility and prudence, all the while proclaiming 'Euroland' as the new standard for a civilized capitalism (White, 2008). This reflected the kind of thinking that had long inspired the dominant 'varieties of capitalism' approach to comparative political economy, which for some two decades had presented the European model of the 'coordinated market economy' as superior in terms of competitiveness, stability and social solidarity over the US 'liberal market economy' model. However, by treating these two models as water-tight compartments, this failed to register sufficiently – as even as prominent a figure as Peter Hall, of the varieties of capitalism school, has since recognized – the common neoliberal trajectory on which continental Europe had itself embarked since the 1980s (Hall, 2013).[1]

The main aim of this article is to examine the relationship between European states and the informal American empire. It argues that any attempt to understand the ongoing eurozone crisis has to consider the deeper determinations of the trajectories of North America and Western Europe through the course of the making of global capitalism since 1945. This means taking seriously the insights of neo-Marxist theories regarding what makes any state's 'autonomy' only 'relative' in a capitalist society. All states in capitalist societies are dependent on the success of capital accumulation for tax revenue and popular legitimacy. It is in this context that the balance of class forces within each state and the range and character of each state's capacities need to be examined to properly appreciate both the significance and the limitations of the distinctions drawn between so-called liberal and coordinated market economies, as well as those between the eras of Keynesianism and neoliberalism. This, however, also requires addressing the asymmetry *among* states and taking seriously the leading responsibility that the American state has had, and still has, for securing the conditions for capital accumulation internationally, even while the other capitalist states retain a degree of 'relative autonomy' within the informal American empire.

The argument is developed in two sections. The first section looks at the contradictions that arose in the 1960s and 1970s, and the development of new institutional linkages designed to contain tensions and foster cooperative relations between the US and the relatively autonomous European Community in the further making of a neoliberal global capitalism in the 1980s and 1990s. This section notes that while the balance of class forces allowed for Keynesian welfare state measures to a greater or lesser extent through the post-war era, the seeds of neoliberalism were already present via the internationalization of production and finance that occurred in that post-war era, and were nourished by the contradictions inherent in the Keynesian social compromise. Therefore, the slow transition towards neoliberal globalization and the extension of financial relations that this entailed not only expressed but in many ways deepened the US' informal empire – it expanded the global responsibility of the Federal Reserve and Treasury Department and reinforced the relativity of European autonomy. Building on this conceptual framework, the second section of the article analyses the relations between the US and Europe in the first great capitalist crisis of the twenty-first century. The complex and interwoven nature of the international credit market and the central role of American financial firms in intermediating global capital meant that while the US Federal Reserve's actions could be cast in strictly domestic terms, the actual effect and reach of its activities had a much more international role.

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

The post-war internationalization of the European states: From the Marshall Plan to neoliberalism

The roots of today's neoliberal global capitalism and the political and economic relativity of European autonomy go all the way back to the American rescue of European capitalism following the Second World War. The Marshall Plan, whereby for every dollar of aid 'the recipient country was required to place a matching amount of domestic currency in a counterpart fund to be used only for purposes approved by the US government', signalled the commitment of the American state to underwriting the European states as *capitalist* states, while at the same time making it possible to secure cooperation from labour in the process (Delong and Eichengreen, 1991: 46–48, 51–53). The post-war balance of class forces in Europe meant that labour could not be repressed as it had been before, and this was seen in the strength of social democracy as well as of the trade unions in post-war Europe and the Keynesian macroeconomic policies that resulted from this. But this made it all the more important for European and American capital that financial discipline should be reinforced as far as possible.

As early as 1948, Per Jacobsson, who had effectively run the Bank of International Settlements since its inception and would later be appointed to head the IMF, reassured American policy-makers that something he called *neo-Liberalism* was beginning 'to gain ground' in Europe: price controls were 'being replaced by ordinary financial control, involving balancing of budgets, curtailment of credit through an increase of interest rates, and cessation of the intervention by the central banks in support of government bonds'. But this success in terms of financial discipline was, he insisted, only really important as a signal of a profound change that had already occurred in the balance of political forces, where non-socialist parties, he noted, had majorities in 13 out of the 16 European states (BIS, 1948: 185). Of course, even in these states, 'liberalization' was a process; pragmatic compromises needed to be made to rebuild social infrastructure, allow room for private investment and address the high expectations of farmers and workers.

As it turned out, Europe's post-war accumulation problem was overcome in spectacular fashion. Absolutely crucial to this was the American endorsement – some would say orchestration – of European regional economic integration. This started with the radical currency devaluations implemented by the European states at the end of the 1940s, and set the stage for the shift in the balance of trade between the US and Europe that took place over the course of the 1950s. Of course, European elites played the main part in the actual running of the European Payments Union (EPU), as well as in the formation of the European Coal and Steel Community (ECSC) in 1951 and the negotiations that led to the Treaty of Rome in 1957. Yet the catalytic role of the US in European integration should not be underestimated. It was precisely because the American state so clearly understood the importance of economic integration to the strengthening of Europe's nation states, and because these stronger states were a condition for expanded liberalization, that the US was so determined in its support for the process that led to the European Common Market. Moreover, the centrality of West Germany within the regional economy was quite consistent with the special role played by the American state, in ways that went well beyond post-war military and security arrangements. In its formative years, 'the FRG represented the almost ideal type of a penetrated system. American hegemony and the Marshall Plan crucially conditioned its integration into regional and global regimes of liberalized trade and payments' (Kreile, 1978: 194).

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

The determining factor behind the explosion of US foreign direct investment by the late 1950s lay in the realization by MNCs that the capitalist reconstruction of the European states and their economies, including the Keynesian welfare state measures that had planted the foundation for mass consumer demand, had succeeded in laying the key structural conditions for economic growth and profitable investment. The formation of the European Community in the Treaty of Rome, soon followed by full currency convertibility in 1958, meant that US MNCs were able to locate and sell across the Common Market. Rather than trying to limit the penetration of US capital, European governments competed for American investment, offering special treatment for foreign capital; and they in turn set up tax policies and labour relation regimes within their borders that were more favourable to all capital – domestic as well as foreign.

The stage was thus set for the implantation of American capital as a class force inside European social formations. As US multinationals penetrated the home space of European corporations, so the latter became more able and indeed eager to directly enter the US market. From this time on, the growth of European companies in the US was increasingly interpreted as signifying a decline in the material base of US hegemony. But this missed the fact that, as increased competition took the form of two-way cross-border and cross-Atlantic networks of integrated production, European capitalists forged ties with American capitalists both within Europe *and* within the US, which actually reinforced the material foundation of American imperial hegemony. European capitalists, even while advancing their specific interests in each state as well as in the Common Market institutions, no longer constituted 'national bourgeoisies' inclined towards anti-American sentiments, let alone towards reviving inter-imperial rivalries.

The significance of this can only be fully appreciated with a proper understanding of what it meant in terms of the internationalization of the capitalist state. The creation of new international institutions in the post-war era did not amount to the beginnings of a proto-global state; these institutions were constituted by national states, and were themselves embedded in the new American empire. National states remained primarily responsible for reorganizing and reproducing their respective countries' social relations and institutions of class, property, currency, contracts and markets. But they were now 'internationalized' in a different way than had previously been the case. Now they too had to accept some responsibility for promoting the accumulation of capital in a manner that contributed to the America-led management of the international capitalist order. The American state did not so much dictate this to other states; rather, it 'set the parameters within which [the others] determined their course of action' (Lundestad, 2003: 64). It is in this respect that US informal empire was expressed in Europe through the relative autonomy of European political and economic forces.

It is not surprising therefore that the externalization of American practices and institutions, which by the 1960s had created a pattern of interdependence between US and European capitalism, only expanded alongside the increasing financialization of the global economy. The growth of financial markets both laid the groundwork for neoliberalism and underwrote the expansion of the US' informal empire. In this respect, London's Eurodollar and Eurobond markets did not threaten but rather complemented New York's role as the world's financial centre. In fact, American commercial and investment banks quickly came to also dominate London (Schenk, 1998: 230–232). But in the face of the build-up of dollar surpluses in Europe, the central policy dilemma for both the American and the European states became how to maintain the system of fixed exchange rates that revolved around the

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

dollar without jeopardizing both economic growth and the momentum towards liberalized trade and capital flows.

This became the central issue of international finance during the 1960s, with significant effects on the US state itself. In the face of the huge amounts of private foreign debt and volatile short-term capital movements that resulted from the ever more substantive integration of European and American capital markets, the balancing act involved in trying to maintain fixed exchange rates became increasingly difficult. In this context, the Federal Reserve Bank of New York now became more closely involved with the Bank for International Settlements, which, after the European Payments Union was wound up, found a new role for itself as the arena in which the central bankers – not just of Europe but of all the advanced capitalist states – came together to work out the politics of international finance (Axelrod, 2009, 26; Andrews, 2008: 101). At the same time, the US Treasury was the pivot of a new institutional infrastructure crucial to the further internationalization of the advanced capitalist states. Insofar as there was a long-term American strategy to deal with the 1960s dollar crisis, it was to further open and deepen European capital markets.

Just as the Treasury Department had been central to the establishment of new forums and mechanisms for the international management of the 'dollar crisis' within the Bretton Woods framework, so was it now central to that framework's dismantling. This did not involve withdrawing from the multilateral management of the contradictions and tensions in the Bretton Woods institutions, but rather bringing into play, as the US inexorably moved towards breaking the dollar's link to gold, all the links that the Treasury and the Fed had developed with other states' finance ministries and central banks. While detaching the dollar from gold decreased one set of perceived restrictions on the US (the threat of some countries choosing gold over dollars), this at the same time *expanded* not only the international status but the responsibilities of the Federal Reserve and the US Treasury. What was essentially happening was a transition from the fixed exchange rates designed to foster capitalist reconstruction under the Marshall Plan and the European Payments Union to establishment of the legal, institutional and market infrastructure that would sustain capitalist globalization amid floating exchange rates anchored by a US dollar–Treasury bill standard.

The ties that were nurtured between US Treasury staff and other countries' finance ministry officials were critical to sustaining the liberalization of finance in the wake of the end of fixed exchange rates. Indeed, managing the volatility that came with accelerated competition and capital mobility required *greater* state intervention and cooperation. Notably, the very settings where senior officials of the advanced capitalist states had met together during the decade-long effort to save Bretton Woods now provided the venues for establishing the legal and institutional framework for floating currencies. The most intimate of these settings were the private dinners attended only by US, UK, German and French officials during G10 meetings.

What was especially significant was that this support for market discipline was already accompanied by the US state's management of global financial risk and volatility. The Federal Reserve Bank of New York, for example, actively played the role of lender of last resort by lending to the insolvent Franklin National Bank on the grounds that 'the failure of Franklin to perform on such a volume of international commitments would lead to a crisis of confidence in foreign exchange markets and possibly to an international banking crisis' (Spero, 1999, 132: 41–42; White, 1992: 29). In contrast to the carefully managed Franklin crisis, the Bundesbank allowed Bankhaus I.D. Herstatt of Cologne to collapse in June 1974. As the Herstatt crisis immediately spilled over to the international interbank lending

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

markets, the Bundesbank was taught a lesson about the internationalization of the state and eventually agreed to assume responsibility for paying off Herstatt's creditors. After this, bank regulators in different countries kept in close contact with one another, even sharing private phone numbers as well as information, so as to be able to act in a concerted way as a collaborative team of 'firefighters' to deal with international financial crises. Yet the institutional responsibility for superintending liberalized financial markets came increasingly to rest with the Federal Reserve and Treasury Department.

Neoliberal integration: American and European

The turn towards neoliberalism in the US and its subsequent near-universalization was a response to the stagflation and heightened class conflict of the 1970s. The Fed's draconian increase in interest rates, introduced by Paul Volcker in 1979 and reinforced by pressure from the German government and the Bundesbank as much as financial markets, was designed to establish a permanent anti-inflation parameter which would guarantee that the dollar, backed by Treasury bonds, would provide a reliable anchor for international finance. But, as we have seen, the rejection of Keynesian full employment policies cannot be understood except in terms of the steady growth of financial markets through the post-war period and the Federal Reserve and Treasury Department's growing responsibility for the reproduction of global capitalism. This meant not only that neoliberalism emerged from the contradictions of the Keynesian social compromise but that, from the very beginning, its social reproduction hinged on the class configurations and institutional accommodations built up by the US state during the post-war period to manage the volatility of liberalized financial markets. It is this historical relationship that has, above all, conditioned the autonomy of European capitalism in the period following 1978, including during the eurozone crisis.

The accelerated push towards Economic and Monetary Union in the 1980s, emerging at a time when Europe was mired in internal stagnation, therefore needs to be understood in the context of the continuing integration of European and American capitalism. The formation of the European Monetary System in 1979 – 'the most significant development in the EC arising out of the long crisis from 1969 to 1983' - was the first major step towards the common currency (Moravcsik, 1998: 238). Although the EMS was created at a time of considerable friction between the Schmidt and Carter administrations, and was viewed with some suspicion as another instance of Germany trying to get the US to bear the brunt of currency adjustment, the US Treasury explicitly decided to adopt a neutral stance towards it (Funabashi, 1988).

What the US was much more concerned about was the apparent persistence on the Western European left of radical socialist political alternatives, and especially by the electoral victory of the French Socialist Party in May 1981, on a radical Keynesian stimulus program developed in concert with the Communist Party (Johnson, 1981; Sassoon, 1996). As the Minister of Economy and Finance in the new government, Jacques Delors, said later: 'When they took part in international meetings, Socialist ministers were looked upon as if they had arrived from another planet, a red flag flying in their hands.' This hostility was hard to bear for a French President who was cast as 'Reagan's best ally' against the USSR in the Euromissile controversy (the main front of the New Cold War of the early 1980s), and who wanted to be seen as 'a man beyond suspicion of betraying the "Atlantic cause"' (Singer, 1988: 103, 223, 226). But what above all determined the French Socialist government's

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

U-turn on economic policy was the severe market pressure on the franc in the context of the high interest rate and austerity policies being pursued by the US, the UK and, particularly, Germany. In the face of the difficulties involved in attempting 'Keynesianism in one country', France cleaved closely to the monetarist orthodoxy of the Bundesbank and 'its strong anti-inflationary mandate' (Moravcsik, 1999: 247). For Mitterand, European integration 'replaced socialism as the grand project that justified his turnaround' (Moss, 2005: 19). French Socialist Party leaders even supported the privatization of the firms they had earlier nationalized, while the 'concepts of class and capitalism, even the very word socialism, disappeared from their vocabulary' (Singer, 1988: 267). They were certainly not alone in this respect, as social democracy followed a similar trajectory throughout Europe.

Social democrats such as Delors who took the lead in establishing the Single European Act of 1986 pinned their hopes on the 'Social Charter' in return for facilitating 'a Europe of traders and capital'. What they failed to understand was that they had already 'thrown away their trump cards' (Lipietz, 1992: 156–159; Durand and Keucheyan, this issue). To be sure, the move towards a single European market accelerated the push for a single currency, which would eliminate the internal balance of trade and exchange rate constraints. This only further reinforced the case for the complete removal of capital controls. When the governors of Europe's central banks came together in 1988 under the rubric of the Delors Commission to establish the goal of achieving monetary union within a decade, this was made conditional on the centralization of monetary authority in a European Central Bank patterned on the Bundesbank, and on the adoption of a fiscal 'stability pact' involving the same rules for imposing ceilings on budgetary deficits that had forced France to effect its U-turn (Dyson et al., 2002: 176).

Most significant, however, was the premise behind the Single Market, that the removal of capital controls should come at the beginning of the process of monetary integration rather than at its end. It was on this basis that, in advance of the adoption of the Maastricht Treaty, the EC's Council of Ministers issued a directive requiring the removal by July 1990 of all restrictions on the movement of capital between both member and non-member states. In the short term, this unleashed an orgy of speculation against European currencies that were no longer protected by capital controls, inducing broader financial crises (such as the Swedish bank collapse) and reinforced financial market pressures for public sector austerity. While the currency crisis destabilized the EMS and forced the adoption of a much looser Exchange Rate Mechanism, the embrace of these measures by Europe's states meant that the march towards the single currency could be resumed with the assurance that 'discipline' would prevail.

This had less to do with neoliberal ideology than the fact that it took place in the context of the transformation of both European finance and production along US lines. Wall Street banks were ever more successful on the continent in underwriting equity offerings, arranging mergers and acquisitions and creating and trading in derivatives (Ellis, 2009: 520–521). As the leading German banks tried to compete with US investment banks on their home turf, they found that their 'ties with specific industrial firms might then easily cause conflicts of interest between the banks' roles as consultant and owner' when it came to arranging mergers and acquisitions. This led to the attenuation of the old links between finance and industry.[2] At the same time, the capital expenditures of US MNCs in Europe more than doubled in value within the first five years following the passage of the 1986 Single European Act, and continued to rise through the 1990s. And just as American capital had originally encouraged the development of the Common Market, seeing it as serving their goal of

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

integrated production and marketing across Europe, they now continued to be corporate leaders in cross-border production inside Europe. While Opel (GM) or Ford were by no means as politically influential in Germany (or even in Brussels) as Volkswagen or Daimler, their operations were more widely dispersed across the countries that made up the 'Single Europe', coming closer than their competitors to realizing the ideal of a pan-European enterprise.[3] The two-way flow of FDI across the Atlantic, incorporating as it did networks of production (components flowing in both directions before being assembled into final products for diverse markets), made the economies on both sides more and more interdependent, and pushed the free trade agenda well beyond European regional integration. The training of European managers was strongly linked to the leading US business schools, ensuring that the management practices that made the most impact were first validated in the US (Carpenter and Jefferys, 2000: 119). In this respect the widespread notions of alternate production regimes and 'varieties of capitalism' were always misconceived: by sharply contrasting European with Anglo-American 'models', they failed to recognize the degree of integration emphasized here.

Thus, having started with the seductive promise in the mid-1980s of a European and Monetary Union based on a 'social charter', by the time the euro was launched in 1999 it was clear that regional economic integration was, in effect, 'the antechamber to broader liberalization' (Grahl, 2004: 293). It became increasingly clear that the project of European integration had little or nothing to do with a more progressive variety of capitalism that would challenge the American empire, but was rather part and parcel of the ongoing integration of Europe itself into global capitalism under the aegis of the American empire.

Coping with crises

Yet if the European states by the 1990s were even more enthusiastic than the US to amend the IMF articles of agreement so as to prohibit all restrictions on capital mobility (Abdelal, 2007: 139),[4] they were rather less keen to take their share of responsibility for containing the financial crises to which a volatile global finance gave rise. It is in this respect especially that the relativity of European autonomy was reinforced alongside the deepening of neoliberal financialization. This was seen very clearly in response to the 1994–1995 Mexican peso crisis, when the US Treasury organized the largest international bailout in the history of a sovereign state (to that point). And during the 1997–1998 Asian financial crisis, it was again the US Treasury which took the lead, not only in the provision of massive bailout funds to the South Korean government but also in roping in Japan's Finance Ministry, the Bundesbank and the Bank of England to get their country's private banks to roll over their loans to Korean banks.

European and Japanese states' strong support for the US' role as the leading financial firefighter was further seen in the G7 agreement in the fall of 1998 to join with the Fed in lowering interest rates. The main concern of the G7 finance ministers was that domestic banks not be treated more favourably than foreign banks. This principle of equal treatment for foreign capital had, of course, governed the making of global capitalism, and it was in good part through the American state's determination to uphold this principle that the crisis was converted into an opportunity. The close coordination among G7 finance ministry officials overlapped with the networks that included central bankers, such as the Financial Stability Forum created in 1999. Even very senior German Bundesbank officials (who, as we have repeatedly seen, were always the most reluctant to bail out individual banks in trouble)

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

recognized that 'if everything goes down the river, you have to act'. Nor did they think that the newly created European Central Bank would challenge the Federal Reserve's leading role as, in effect, the world's central bank. This was not only because 'the Fed interest rate is the engine of the rest of the world,' but also because 'Europe is not united and nothing happens without the United States. We all play a role but the US is qualitatively different'.[5]

Thus for all the emphasis on building the new Europe, the hub-and-spokes structure of the American empire still held in the first years of the twenty-first century. Not only did US FDI in Germany, France and the UK still exceed that of any European country, the US also remained the largest recipient of German, French and British foreign direct investment. Moreover, the MNCs of these other countries produced more inside the US than they exported to it (UNCAD, 2008; Barefoot and Mataloni, 2010). European banks in particular were drawn even more heavily into the US commercial paper and interbank markets, and this was not discouraged by the European Central Bank, in part because it helped to lower the euro's exchange rate relative to the dollar. And just as US investors were creating the explosive growth of private US mortgage-backed securities from $1.4 to $3.2 trillion between 2003 and 2007, European banks also greatly increased their purchases of these riskier assets – from $100 billion in 2003 to almost $500 billion in 2007. This included not only British banks, with their long tradition of a wide variety of transatlantic linkages, but even German regional banks (often still seen as epitomizing the virtues of coordinated capitalism and bank-based financial systems). The infusion of foreign credit not only fuelled US consumption but also removed the constraints that a growing trade deficit would otherwise have entailed for the US economy. This did not mean that the US was merely living off its borrowings; alongside a total financial inflow of $8.3 billion from 2000 to 2006 there was an outflow of $4.4 trillion, which was indicative of the extent to which US capital remained the largest global source of foreign direct investment. Yet, as foreign financial markets became intertwined with US financial markets amid the increasing penetration of neoliberal social relations in Europe and the simultaneous extension of US imperialism, so were they subject to their smouldering contradictions.

American crisis/European crisis

It is not surprising in the context of this historical and institutional relationship between European capitalism and American informal empire that the US state played such a central role in managing the post-2007 financial cloudburst. What stood out about the US response to the crisis was that its management of financial markets was explicitly organized with an eye towards reproducing stability internationally, and particularly in core European markets. Insofar as the resolution to the crisis has been stalled because of the ECB's reluctance to absorb the massive piles of sovereign debt held by core European banks, the ongoing instability in financial markets reflects the institutional separations and complexities that continue to mediate Europe's relative autonomy. In terms of understanding the future of financial regulation and competition, it is thus crucial to appreciate that the ECB's structural dependence on the international role of the Federal Reserve came with an important degree of institutional separation.

Since the integration of global finance and the extension of American's informal empire meant that the stability of US financial markets now also depended on the solvency of Europe's banks, the Fed had little option as soon as the crisis hit but to supply those banks with dollars. The Fed's targeted support of troubled financial institutions between

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

April and December 2008 involved it taking increased responsibility for the reproduction of core international funding markets, especially the short-term wholesale lending market between large international financial institutions (Barr and Nutting, 2007; Keoun and Torres, 2011). Thus when Bernanke expressed deep concern with the 'ongoing pressures in interbank funding markets' alongside the tremendous rise in the TED spread in October 2008, he was also signalling the Fed's intention to continue its support of European and global credit markets, even while the Fed concealed its protection of European financial institutions (they would only be revealed by a court order in April 2011, almost four years later) for fear that it would undermine market confidence and stir up domestic populist resentments (Bernanke, 2008a).[6] Following 2008, with changes in the conduct of US monetary policy, the Fed has used interest payments on excess reserve holdings in the federal funds market to support eurozone banking institutions and the international payments system (Tracy and Hilsenrath, 2014).

An appreciation of this international dimension of the Fed's role is also important in relation to the adoption of the new strategy of quantitative easing. Up until the collapse of Lehman's and AIG, the Fed's liquidity injections into financial markets were largely sterilized as it drew down its portfolio of Treasury securities. As financial conditions deteriorated, however, the Fed shifted course and began supplying net positive amounts of liquidity to support financial intermediation. What was distinctive about the Fed's QE programme was that it was oriented towards the purchase of bonds rather than the injection of reserves into the banking system (Fawley and Neely, 2013). Thus while the US QE program expanded the quantity of excess reserves in the federal funds market, this was a byproduct of the Fed's attempt to cleanse the asset side of bank balance sheets by effectively swapping toxic for clean securities (Bernanke, 2008b). What was clearly happening here was the Fed walking a tightrope, allowing troubled US firms to sanitize their balance sheets in order to stimulate domestic lending while also managing the stability of the major European banks that had participated in the US mortgage and financial feeding frenzy.

By structuring the QE programme around bond purchasing, the Fed targeted troubled markets rather than institutions and (contrary to the Bank of Japan's earlier experiment with quantitative easing) stretched its influence beyond a select few domestically chartered firms. Given the fact that the majority of US-originated mortgage-backed securities were absorbed by European banking institutions, this enabled the Fed to act directly as a custodian for European banking risk (Nesvetailova and Palan, 2008). In this context, it is not surprising that as the QE programme advanced, funds were increasingly directed towards foreign providers. Most of the liquidity was initially guided towards nationally chartered US banks as the Fed focused first on protecting domestic firms. However, as these firms stabilized and Wall Street funding markets improved, the QE program increasingly directed capital to related foreign institutions. As the financial crisis shifted towards Europe, the Fed used the QE programme to support the asset side of core European banks by transferring liquidity to US-based foreign banks. As a result, the cash assets held by such banks increased from 15 per cent of the total ($45 billion) in April 2007 to 53 per cent ($1.4 trillion) in April 2014 (Figure 1).

Integration and autonomy: managing the ongoing crisis together

It is, on the surface, surprising, given how the US regulators used the QE programme to manage European capitalism, that the Fed has recently begun to taper liquidity amid the

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

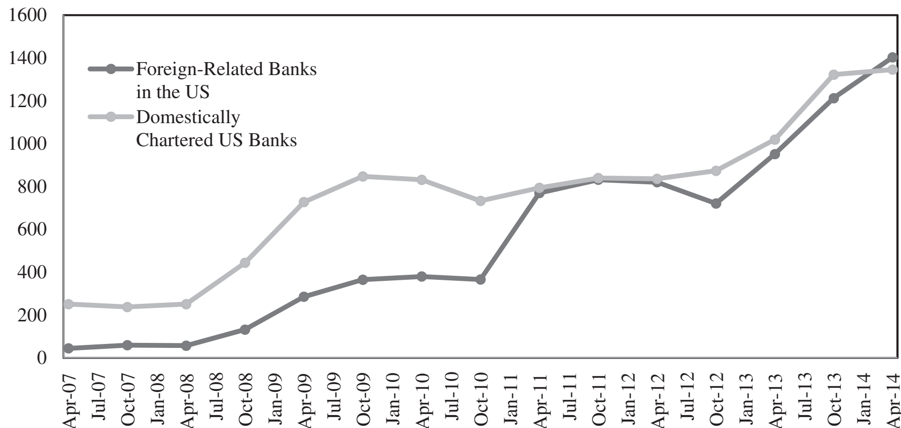

Figure 1. Cash assets of banking institutions in the US, 2007–2014 (USD Bill).

continuing instability in eurozone markets. But these actions in fact have to be understood as part of a broader strategy aimed at permanently resolving the euro crisis. It is highly significant that when Bernanke announced the Fed's intention to trim its bond-buying strategy by $10 billion a month in December 2013, the Fed had already put in place a new mechanism of liquidity provision to support European banks. What got lost in all of the media attention given to the Fed's unraveling of QE was a critical agreement in October 2013 among the Federal Reserve, the European Central Bank, the Bank of Canada, the Bank of England and the Swiss National Banks to convert their temporary bilateral swap agreements into unlimited standing facilities.

When the crisis unfolded in 2007 and 2008 the Federal Reserve introduced two major swap lines to protect the Eurodollar interbank market and allow the dollar to fulfil its role as international fiat currency. Unlike earlier swap arrangements between central banks, set up to compensate for balance of payments deficits, these arrangements were explicitly aimed at providing international liquidity, with the additional effect of getting foreign central banks to act as conduits for the application of the Fed's looser monetary policy to their own domestic economies. For its part, the eurozone has consistently relied on US swap arrangements as a source of dollar liquidity during the crisis. In the aftermath of the stress caused by Lehman's collapse, as total outstanding dollar liquidity swaps reached nearly $600 billion (Clark and Linder, 2012), the ECB's swap holdings peaked at $171 billion (Black, 2013). What is more, as securitized debt markets recovered, giving way to a new round of instability centred on the European banking system, the Fed swap programme has basically been transformed into a liquidity support programme for European financial institutions aimed at supporting credit flows in the eurozone. Even though the volume of capital is quite small in comparison to the foreign holdings from the US QE programme, standing at only around $400 million, it is nevertheless important that as of April 2014 only the European Central Bank maintained a portfolio of dollar liquidity swaps with the US Federal Reserve. Thus what was clearly involved in the Fed's decision to transfer the swap system from a patchwork of ad hoc financial arrangements into a standing facility was the erection of a coherent structure for managing liberalized financial flows centred on the US state that could especially penetrate into European markets. In the process of maintaining global liquidity the

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

Fed has once again expanded its institutional capacity to manage neoliberal financial markets in establishing a mechanism that allows it to function more effectively as an international lender of last resort.

Despite the importance of the new swap system for understanding both the tapering of QE and the evolving international financial architecture, the US state never intended to rely solely on transfers of dollar liquidity to combat European financial instability. Resolution of the crisis requires more than just the provision of short-term liquidity. The major problem facing Europe today is that its core banks are sitting on a massive and unsustainable volume of under-achieving sovereign debt. The remarkable confluence of European sovereign debt yields which saw the risk premium on Greek and Spanish debt come almost fully into line with German debt, despite the obvious persistence of wide economic disparities, actually reflected the tremendous build-up of periphery debt on the balance sheets of major European banks in what has been termed the 'mother of all moral hazard trades' (Blyth, 2013: 81). Reacting to the imagined collapse of currency risk that was supposed to accompany the currency union, these banks stockpiled periphery debt in the lead-up to the introduction of the euro and, as spreads declined, levered their balance sheets as high as 40:1 in order to maintain profitability (Blyth, 2013). Especially for this reason, the collapsing fundamentals of the Greek economy threatened a bond run throughout the European financial system which unnerved major funding markets and stalled recovery.

It is in this sense in particular that the Federal Reserve's ability to take responsibility for the management of global financial markets is now notably constrained. Rather than the provision of short-term liquidity, resolution of the euro crisis requires not just the creation of a more balanced economic structure to allow the peripheral economies to both repay debt and meaningfully participate in the regional economy, but the massive absorption of privately owned sovereign debt holdings. Given its inability to influence inflationary expectations in the eurozone, and especially in the face of the obvious political repercussions involved in uploading the toxic debt of a foreign country onto its balance sheet, the Federal Reserve's management of the euro crisis has, on the surface, run up against the institutional limitations of US informal empire. In this context, instead of accepting the constraints of its institutional infrastructure, the Federal Reserve, in conjunction with the Treasury Department, has attempted to manage the crisis by inserting itself directly into the internal political dynamics guiding ECB monetary policy. This has involved building on and deepening the patterns of integration, coordination and control that had already been triggered by the destabilization of mortgage markets in 2008.

From the beginning of the crisis, the Treasury and the Fed were in constant contact with the European Central Bank, the Bank of Japan and the Bank of England, as well as finance ministries, about the roles they would all play as lenders of last resort. In fact, the leaders of the G20 – of which little had been heard after the dust from the 1997–1998 financial crisis had settled – were suddenly summoned to Washington in November 2008, just when the financial conflagration was triggering a deep global economic collapse. The first G20 leaders' summit's final communiqué offered a collective 'Commitment to an Open Global Economy: We underscore the critical importance of rejecting protectionism and not turning inward... we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports' (G20, 2008). Meanwhile, a 'Global Plan for Recovery' – jointly advanced by the UK and US in the face of more economically orthodox opposition from Germany and France – was agreed at the second G20 Summit in

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

London in April 2009. It attempted on an even grander scale the kind of coordinated G7 stimulus that the Carter administration had proposed towards the end of the 1970s, and that had been accomplished more successfully by the Clinton administration in late 1998. The much-trumpeted $5 trillion collective global stimulus pledged was not nearly as important as the guarantee given for collective action, without which there was the danger that stimulus by any one state would simply lead to more increased imports and balance of payments problems as well as larger government deficits and accusations of fiscal laxity.

It is these very same networks of coordination, nurtured both before and during the crisis, that US authorities have used to overcome and manage the strong opposition within Europe for a comprehensive rescue strategy. As the euro crisis expanded in depth between January 2010 and June 2012 the Treasury was thus intimately involved in policy discussions, directly as well as through the International Monetary Fund, with Geithner phoning and even flying over to meet European finance ministers on 168 different occasions. This involved the US state 'pressing Europe to take more decisive action' to resolve the crisis in a way that would not jeopardize the type of financial market integration associated with the euro (Barker and Speigel, 2011; Pisani-Ferry, 2012). In particular, this concern has involved both the Federal Reserve and the IMF being highly critical of the ECB's reluctance to meaningfully extend its lender of last resort function to the purchase of European sovereign debt.

In assessing the relativity of the ECB's autonomy, it is important to appreciate how long it resisted calls for a US-style bond-purchasing programme. But it is also highly significant that the ECB's aggressive move on 2 August 2013 to combat the crisis – the introduction of the Outright Monetary Transactions programme, which allowed for the purchase of unlimited amounts of sovereign debt in the secondary market – came only 15 days after the IMF condemned it for failing to adequately defend against the escalation of the crisis and urged the immediate purchase of 'a representative portfolio of long-term government bonds' (*Telegraph*, 2012). Thus in terms of understanding the future direction of European monetary policy it is very important that a recent Federal Reserve report published by the Bank of Richmond criticized the ECB for lacking 'a coherent strategy for creating the monetary base required to sustain the money creation...' and argued that it needs to embrace the type of structural reform that allows it to buy packages of government securities 'to whatever extent necessary to create strong growth in aggregate nominal demand' (Hetzel, 2013: 15; Cafruny, this issue: 19). When this is considered alongside comments made by IMF managing director Christine Lagarde on 2 April 2014 regarding the need to pursue a bond-buying program representative of the true dimensions of the crisis, it is perhaps not surprising that on the next day, ECB president Mario Draghi abruptly shifted course by distancing himself from earlier comments about the political infeasibility of US-style QE and hinted instead that the governing council was now 'united in its support for more radical action' (Cable, 2013; Jones, 2014).

Conclusion

From currency swaps to provide other European states with much needed dollars, to overseeing policy cooperation, the crisis has confirmed the central role of the US Treasury and Fed in global crisis management and all the while helped to foster new institutional mechanisms of control to further manage liberalized financial markets in the future. It has rather been the formerly highly touted supranational system of European governance – exposed in the crisis for its lack of central authority over taxation, bond issuance and budget

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

approval – which now appears most dysfunctional for the management of global capitalism. It is on these grounds, of course, that US financial authorities have grown increasingly frustrated with the European Union, and in particular its inability to deal with the internal political dynamics of its member states, above all Germany, in a way that addresses the debt crisis of its other smaller member states.

The eurozone crisis confirms a basic fact about the nature of both globalization and informal empire: state sovereignty is not effaced within it. This can be seen in the relative autonomy of European states and the difficulties the American state had to continually confront in getting the German state, from the time of the Herstatt banking crisis in the 1970s to the Mexican crisis in the 1990s to the crisis of the euro today, to overcome its obsession with inflation and 'moral hazard' and to take its share of responsibility for containing crises. Yet this cannot be understood in terms of states, least of all Germany, retreating from free trade and free capital flows in favour of economic nationalism. After decades of economic integration, there are no national bourgeoisies like those that supported the fascist turn in Germany or Italy in the interwar period.

The liberalization and expansion of finance was essential to the making of global capitalism, yet it came with a degree of volatility that threatened economic stability. Reviving capitalism's health today requires strengthening the confidence of bankers that their activities will be appreciated and their assets protected. The unresolved dilemma for all capitalist states now is how to both stimulate the economy and regulate financial markets so as to limit increasingly dangerous volatility, and to contain popular pressures for tighter regulation, without undermining the ability of finance to play its essential role in capitalism.

Funding

This research received no specific grant from any funding agency in the public, commercial or not-for-profit sectors.

Notes

1. See Panitch L and Gindin S (2005) Euro-capitalism and American empire. In: Coates D (ed) *Varieties of Capitalism, Varieties of Approaches*. New York: Palgrave Macmillan, pp. 139–159.
2. Deutsche Bank's presence on the supervisory boards of the hundred largest German firms fell from 40 in 1980 to 17 in 1998; the share of industrial company board chairmanships held by bankers fell from 44 to 23 per cent over the 1990s. For their part, German corporations looked to global capital markets for equity investment. By the mid-1990s the share of mutual funds, insurance companies and foreign investors in the ownership of the biggest German firms had reached 21%; by 2005 it was no less than 46%, with the largest increases coming from foreign investors (Sablowski, 2009: 146–8).
3. This was confirmed in personal interviews with various executives of these firms, in particular Martin Leach, president and chief operating officer of Ford of Europe, 14 October 2002.
4. The US had supported the codification of these rules in the OECD's Code of Liberalization in 1989, but when it came to applying this across the globe through the IMF, there was a distinct lack of US enthusiasm. Given the priority it attached at the time to securing the multilateral and bilateral trade agreements that would open up emerging markets to international competition in financial services, the US Treasury was not keen to use up much political capital on changing the IMF articles.
5. This was confirmed in interviews with senior Bundesbank officials in Frankfurt in 2002.
6. The TED spread measures the difference between the interest rate on 3-month Treasury bills and LIBOR interest rate on 3-month Eurodollar deposits.

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

References

Abdelal R (2007) *Capital Rules: The Construction of Global Finance*. Cambridge: Harvard University Press.

Andrews DM (2008) *Orderly Change: International Monetary Relations since Bretton Woods*. Ithaca: Cornell University Press.

Bank of International Settlements (1948) Per Jacobsson to Allen Dulles. *BIS Files* 48, 19 April.

Barefoot KB and Mataloni Jr RJ (2010) US multinational companies' operations in the United States and abroad in 2008. *US Survey of Current Business,* August, pp.205–230.

Barker A and Speigel P (2011) Geithner set to join European meeting. *Financial Times*, 13 September. Available at: www.ft.com/cms/s/0/b6efef8-dd6c-11eo-b6bd-00144feabdc0.html#axzz3RIBqRGHC (accessed 13 September 2011).

Barr A and Nutting, R (2007) US banking giants borrow 2Bl from Fed. *Market Watch*, 22 August. Available at: www.marketwatch.com/story/us-banking-giants-borrow-2-bln-from-feds-discount-window (accessed 14 October 2008).

Bernanke BS (2008a) Economic outlook and financial markets. *Testimony before the Committee on the Budget, US House of Representative*, 20 October. Available at: http://www.federalreserve.gov/newsevents/testimony/bernanke20081020a.htm (accessed 12 April 2014).

Bernanke BS (2008b) Meeting of the Federal Open Market Committee on 15–16 December. *Board of Governors of the Federal Reserve System*, 16 December. Available at: http://www.federalreserve.gov/monetarypolicy/files/FOMC20081216meeting (accessed 5 April 2014).

Black J (2013) Central banks make SWAPs permanent as crisis backstop. *Bloomberg*, 31 October. Available at: http://www.bloomberg.com/news/articles/2013-10-31/ecb-makes-crisis-cash-lines-at-central-banks-permanent (accessed 21 May 2014).

Blyth M (2013) *Austerity: The History of a Dangerous Idea*. New York: Oxford University Press.

Cable J (2013) ECB won't launch QE or reduce reserve requirement – Reuters poll. *Reuters*, 27 November. Available at: http://uk.reuters.com/article/2013/11/27/uk-ecb-rates-poll-id (accessed 10 April 2014).

Carpenter M and Jefferys S (2000) *Management, Work and Welfare in Western Europe*. Cheltenham: Edward Elgar.

Clark T and Linder J (2012) Central Bank Liquidity Swaps. *Economic Trends*, 19 December, pp.9–11.

DeLong BJ and Eichengreen B (1991) The Marshall Plan: History's most successful structural adjustment program. Working Paper 3899, *National Bureau of Economic Research*, November.

Dyson K, Featherstone K and Michalopoulos G (2002) Strapped to the mast: EU central bankers between global financial markets and regional integration. In: Coleman WD and Underhill G (eds) *Regionalism and Global Economic Integration: Europe, Asia and the Americas*. London: Routledge, pp.174–196.

Ellis CD (2009) *The Partnership: The Making of Goldman Sachs*. New York: Penguin.

European Commission (2001) Improving and simplifying the regulatory environment. *EC: Interim Report to the Stockholm European Council*, Brussels, 7 March.

Fawley BW and Neely C (2013) Four stories on quantitative easing. *Federal Reserve Bank of St. Louis Review*, January/February, pp.51–88.

Funabashi Y (1998) *Managing the Dollar: From the Plaza to the Louvre*. Washington, DC: Institute for International Economics.

Grahl J (2004) The European Union and American power. In: Panitch L and Leys C (eds) The Empire Reloaded, Socialist Register *2005*. London: Merlin.

Hall P (2013) The political origins of our economic discontents. In: Kahler M and Lake DA (eds) *Politics in the New Hard Times: The Great Recession in Comparative Perspective*. Ithaca: Cornell University Press, pp.129–149.

Hetzel RL (2013) ECB monetary policy in the recession: A new Keynesian (old monetarist) critique. *Federal Reserve Bank of Richmond*, July, Working paper 13-07.

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015

Keoun B and Torres C (2011) Foreign banks tapped Fed's secret lifeline most at crisis peak. *Bloomberg*, 1 April. Available at: http://www.bloomberg.com/news/articles/2011-04-01/foreign-banks-tapped-fed-s-lifeline-most-as-bernanke-kept-borrowers-secret (accessed 17 May 2014).

Kreile M (1977) West Germany: The dynamics of expansion. *International Organization* 31(4): 775–808.

Johnson RW (1981) *The Long March of the French Left*. New York: St. Martin Press.

Jones C (2014) ECB says prepared to embrace QE. *Financial Times*, 3 April. Available at: http://www.ft.com/cms/s/18f49ba6-bb1a-11e3-948 (accessed 11 April).

Lipietz A (1992) *Towards a New Economic Order*. Oxford: Oxford University Press.

Lundestad G (2003) *The United States and Western Europe since 1945*. Oxford: Oxford University Press.

Moravcsik A (1998) *The Choice for Europe*. Ithaca: Cornell University Press.

Moss BH (2005) *Monetary Union in Crisis: The European Union as a Neo-liberal Construction*. New York: Palgrave Macmillan.

Nesvetailova A and Palan R (2008) A very North Atlantic credit crunch: The geopolitics of the global liquidity meltdown. *Journal of International Affairs* 62(1): 165–185.

Panitch L and Gindin S (2005) Euro-Capitalism and American empire. In: Coates D (ed.) *Varieties of Capitalism, Varieties of Approaches*. New York: Palgrave Macmillan, pp.139–159.

Pisani-Ferry J (2012) Tim Geithner and Europe's phone number. *Bruegel*, 4 November. Available at: http://www.bruegel.org/nc/blog/detail/article/934-tim-geithner-and-europes-phone-number (accessed 4 November).

Sablowski T (2009) Towards the Americanization of European finance? The case of finance-led accumulation in Germany. In: Panitch L and Konings M (eds) *The American Empire and the Political Economy of Global Finance*. London: Palgrave.

Sassoon D (1996) *One Hundred Years of Socialism: The West European Left in Twentieth Century*. London: I.B. Taurus.

Schenk CR (1998) The origin of the Eurodollar market in London: 1955–1963. *Explorations in Economic History* 35(2): 221–238.

Singer D (1988) *Is Socialism Doomed? The Meaning of Mitterrand*. New York: Oxford University Press.

Spero JE (1999) *The Failure of the Franklin National Bank: Challenge to the International Banking System*. Washington DC: Beard Books.

The Telegraph (2012) IMF: Eurozone in critical danger, ECB should launch QE. *The Telegraph*, 18 July. Available at: http://www.telegraph.co.uk/finance/financialcrisis/9408903/IMF-eurozone-in-critical-danger-ECB-should-launch-QE.html (accessed 3 April).

Tracy R and Hilsenrath J (2014) Fed rate policies aid foreign banks. *Wall Street Journal*, 29 September. Available at: http://online.wsj.com/articles/fed-rate-policies-aid-foreign-banks-1412013119 (accessed 30 September).

Volcker P and Gyohten T (1992) *Changing Fortunes: The World's Money and the Threat to American Leadership*. New York: Times Books.

White EN (1992) *The Comptroller and the Transformation of American Banking, 1960–1990*. Washington, DC: Comptroller of the Currency.

White J (2008) On crisis, Europe to US: "I told you so". *Christian Science Monitor*, 10 October. Available at: http://www.csmonitor.com/World/Europe/2008/1010/p07s03-woeu.html (accessed 04 January 2009).

Downloaded from cch.sagepub.com at YORK UNIVERSITY on November 4, 2015