

# Is the Banking and Financial System Changing the Social and Political Global Dimension?

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## Abstract

This paper aims to demonstrate how banking and financial centres, which are not formal political decision-makers, are gaining a growing and significant role in the social and political dimension. By focusing on the contemporary dominance of banks and financial centres, as opposed to an unduly narrow focus on their vital role in the interactions between nations, this study contributes to the much-needed conversation about the influence of non-State players in the social and political dimension. The case studies of banks involved in State and inter-State policy will be analysed using the theoretical framework presented in this thesis. The case study of PNB Paribas, which was allegedly involved in the Sudan war in 2002, by influencing political decision-makers and, as a result, changing political outcomes, will receive the majority of attention.

**Keywords:** governments, political agenda, society, banks and financial centres, democracy

## 1. Introduction

The connections between States and private entities in areas that were once thought to be of exclusive interest to States, and within their sphere of influence, demonstrate the rise of non-traditional, non-State actor models, as well as the increasing ability of new forms of private power to directly or indirectly influence State policy (Dinc, 2005).

By analysing the theories of Steven Lukes and Susan Strange, this article goes beyond those theories by asserting that banks and financial centres now act with the same authority traditionally assigned to States. Indeed, while taking into consideration the previous academic literature on this field of research, this work will state that banks, with their systems, are now able to play a decisive role, carrying out the main functions of financially supporting States in activities that interfere with international affairs, and/or using their local and global resources to influence and determine States (Tarrow, 2005).

Additionally, after examining the theories of power, in particular Joseph Nye's, this thesis demonstrates that banks and financial centres exercise a 'power dependence' on States, according to Richard Emerson's theory (1962). Indeed, States are now increasingly dependent on banks and financial centres (Ruggie, 2004).

Therefore, the questions of whether, and how, the banking and financial system is altering IR, as well as the State's future role, will be explored.

The case studies of banks involved in State and inter-State policy will be analysed using the theoretical framework presented in this thesis. The case study of PNB Paribas, which was allegedly involved in the Sudan war in 2002, by influencing political decision-makers and, as a result, changing political outcomes, will receive the majority of attention. This inquiry can show the existence of new banking and financial systems-related power structures that, in a networked world, can clearly and strongly influence the decisions and actions of the States in IR, and even threaten the power of States.

## 2. Structure

This study is divided into the following sections and chapters. Through a review of traditional theories and theories developed since the end of the Cold War and the advent of globalisation, the first chapter will look at the significance of looking at the role of the banking and financial system in current discussions on non-State actors. The first section will provide evidence that the historically constant relationship between governments, banks, and the financial system has grown over time; the second section will consider how the literature has shifted from a state-centred perspective

analysis to a power diffusion approach, increasing the debate on non-state actors in the global social and political dimension, including banks. The second chapter will look at how banks currently have capabilities that are comparable to those of States in setting the global political agenda. The case study of BNP Paribas, and its involvement in the Sudan war, will be analysed in the first section. By considering previous research theories that constitute the theoretical basis for this thesis, the second section will argue which kind of power banks and financial centres hold in the social and political dimension and which is the future role of States.

### 3. Methodology

In this work, critical discourse analysis is employed. Various databases and search terms, including 'banking', 'financial systems', 'political power', were employed for the literature review. It is important to note that this study uses the terms 'bank' and 'financial services' interchangeably when referring to language. Even so, it is acknowledged that there are some key differences between the two. Banking is therefore a part of the financial services industry, even though not all bank services fall within the formal definition of financial services. With an emphasis on the case study of the BNP Paribas activity, a qualitative and quantitative technique is employed that takes into account both the theoretical elements and their application to real-world scenarios.

### 4. Limitations.

This article quotes and references previous research studies that form the basis of the literature review for this thesis and the theoretical basis for the research question being investigated. However, previous research studies on the specific topic of this thesis are limited. Consequently, this article has tried to develop a new typology of research which, surely, needs further development in the study area.

### 5. Banking and Financial Systems: A Topic in the Debate on the Role of State and Non-State Actors in the Social and Political Processes

Governments and banks have had long-standing partnerships in the past (O'Brian and Palma, 2016).

Consider the Medici Bank, which had locations in Rome, Venice, Lyons, Bruges, and London. By providing financial support for their endeavours, they built contacts with the sovereigns and the great European nobles. Talking about the Bank of England at the turn of the eighteenth century, Adam Smith (1776) claimed that "The stability of the Bank of England is equal to that of the British Government [...]".

Or consider Bendix Aviation, which was owned by Morgan Bank and delivered many aircraft engines to Germany between 1934 and 1935, or American financial institutions like the Chase Bank, which provided nearly \$20 million in financing for Nazi Germany between the years 1936 and 1941 by selling Rueckwanderer Marks to US people of German ancestry. Finally, consider also how banks were crucial in establishing diplomatic ties between the Old Continent and the United States (US) following the Second World War (Churchill, 1948-1953).

Have banks' and financial centres' relationships altered over time?

According to Kal Holsti (1998), considering the current period of significant change, the definition of the international system as being anchored to the way States relate to one another is a constrained conceptual construction. The interactions between States and the banking and financial systems, which have evolved in response to new phenomena, such as globalization and technical transformation, are among the most significant changes currently occurring (Stopford and Strange, 1991).

In the post-war decades, and for much of the Cold War, technology was driven and directed by States. In the 1990s, it began to be led and directed by the private sector, including banking and financial systems that could change the diffusion of the financial services business to all kinds of new players. Banks have occupied a significant space in the international governance structure by supporting the policy of State actors through the cross-border banking sector, which often operates as a *sine qua non* for the effectiveness of State actions (Miyoshi, 1993).. The banking and financial systems, as well as its regulatory framework, were significantly affected by the 2008 global financial crisis.<sup>1</sup> Since then, the necessity to adapt new strategies and business models in response to the crisis has evolved, especially through strengthening the systems of crisis supervision and resolution. In such a situation, the literature gave the relationship between the stability of the banking and financial system and the equilibrium of global politics fresh interest and focus. However, relatively little is known about how banks influence social systems and politics (Bernhagen, 2007; Swank, 1992)

### 6. From a State-centric Approach to Power Diffusion

<sup>1</sup> The 2007/2008 financial crisis began with cheap credit and lax lending standards fuelling a housing bubble. When the bubble burst, the banks were left with trillions of dollars of worthless subprime mortgage investments.

The study of States as the primary actors in the political system was emphasised by the realism paradigm that centred its analysis on the State action originating from a sovereign body. Despite the diversity of internal theoretical perspectives, realists believe that the international system is constituted by anarchy, the absence of a centralised power, in which States are sovereign and thus autonomous from one another (Waltz, 1979). According to John Mearsheimer (1994), this worldview is based on four presumptions: every State's primary goal is survival; States are the only rational actors and they try to maximise their chances of surviving; all States have some level of military capability, and no State fully understands its neighbours, with the consequence that the world is unpredictable and dangerous; and finally, in such a world, the Great Power States, who have more clout economically, play a dominant role. Realists believe that other agents, such as non-governmental organisations, individuals, or international organisations, are only tools of States (Waltz, 1979).

Although the primary focus of the study of political systems has historically been on the analysis of States and their interactions with one another, both liberalism and realism recognise the existence of non-state actors as the subject of a theoretical discussion. In his book *Man, the State, and War*, Waltz (1959) proposed three levels of analysis: a macro-level (the international system); a micro-level (the national State); and the level of individuals.

In any case, the study of private actors has long been ignored, or criticised, in favour of other analytical approaches. According to some authors, although individuals' needs are a starting point for both domestic and international policies, it is theoretically wrong to deal with individuals within the constraints of the nation-State or of the international system (Isaac, 1974). This approach emerges in works like those by James Rosenau (1997) who, while offering helpful insight for considering individuals, frequently overemphasises the structural social context of actors playing social roles: analysis at the level of the individual continues to be tied to the model of political leadership and is, thus, limited to individuals who have official roles and powers in the State and are able to exert a direct impact on the global scene (Byman & Pollack, 2001).

In light of the interconnected world of the globalised era, Joseph Nye (1990) stated that emerging challenges that altered the dominance of the nation-State, as a political unit where the state and nation are congruent, gave rise to the concept of power diffusion in political systems which is centred on the increased role of non-state actors in world politics, and how these actors affect State authority. Power diffusion, according to the author (2011a), is the transfer of authority from governments, whether in the East or the West, to non-governmental or non-State actors. Indeed, two significant power transfers are taking place in the twenty-first century: a 'horizontal' shift from Western to Eastern countries, and a 'vertical' diffusion of power away from States and towards non-governmental entities. This dissemination, which is fuelled by the present digital revolution, will result in a much larger number of actors participating in international politics than in the few centuries since the Treaty of Westphalia established the principle of sovereign immunity (Nye, 2011b).

### 6.1 *The Open Debate on non-State Actors in International Relations and Political Theories*

In the 1980s, Mark Hoffman (1987) considered that the field of international political process has been characterised as being at a crucial crossroads. In terms of theory and research, the heritage of realism still rules the area, but different viewpoints are threatening this authority. Neo-Gramscian critical theory, world-system theory, feminist theories, and liberal pluralism, have challenged realism's explanation of international affairs and offered some alternative viewpoints. Despite their different approaches to the global system, they assess global politics and nation-State behaviour taking into account non-State actions (Krasner, 1982). "The world polity is in the process of self-transformation - out of the traditional nation-State structure and into a system more congruent with the contemporary global polyarchy", claims Seyom Brown (1995:268).

Neoliberals agree with realists' State-centric viewpoint, but they also contend that international institutions are a vital component of the global system and play a significant role in world politics. Yosef Lapid states that "the gap between the 'nation-state' ideal and political reality seems to be actually growing rather than narrowing", since "recent technological, economic, and social developments have posed enormous challenges to the capacity of territorial States to fulfil their traditional functions of security, welfare, and identity" (1994: 23, 24).

In the globalised interconnected world, the indistinguishability of public and private matters, national and international affairs, as well as political, economic, and social issues, are emphasised. According to Andrew Bennett (1991), in this framework, non-State actors have started playing a role, and private economic and social activities, which affect the values accessible to other players, are regarded as political behaviours.

The distribution of power and the participation of non-State actors are considered to be two closely related topics. Realists contend that power is the primary factor in explaining why States behave in anarchic international systems where collaboration between nations is impossible, since States only look out for their own short-term interests. Non-State players, including international organisations, have no impact in this dimension. However, Robert Keohane

(1984) argues the possibility of international cooperation for the achievement of long-term interests, in relation to which, the influence of non-State actors in international politics is considerably significant. It is recognised that cooperation between nation-States, transnational organisations, and civil society is essential to addressing the problems brought on by the end of the Cold War and the effects of globalisation, such as religious fanaticism, hyper-national ethnicity, divisions and hatreds, cultural disparities, and economic imbalances (Kegley & Wittkoph, 1995).

In order to protect their interests, nation-States, even the most powerful ones, must give non-State actors a high priority.

Among the non-State actors, banks and financial institutions have increasingly played a large role in modern international relations.

## 7. A literature Analysis

In the eighties of the twentieth century, Robert Gilpin argued that the increased role of the international monetary system constituted "a virtual revolution in world politics"(1987:118). It was a revolution that had rarely ever been acknowledged or discussed before. However, there was no sequel to Gilpin's reflections (Strange, 1998). Indeed, the public debate since the mid-1960s, and most of the academic writings by economists and others, focused on currency and the exchange rate problems, and not on the organization of the banking and financial system. For example, Robert Keohane and Joseph Nye's earlier and influential work *Power and Interdependence* (1977), in giving a State-centric definition of the monetary area of the issue, limited their analysis only to currency and the exchange rate, without taking an interest, for example, in transnational flows. Generally, there has been a long absence of any consideration of the structural power of the banking and financial system which - as Karl Polanyi (1957) clearly sensed - could directly affect both the international political system and national politics.

Moreover, as Susanne Strange argues (1998), the lack of attention is based on the supposition that international politics are also distinct from national politics, on the basis of their respective normative systems: indeed, in contrast to domestic law, which is supported by political authority and stable institutions, international law is fluid. As a result, even though authors' manuals of the time (Waltz, 1979; Ray, 1995; Aron, 1973; Claude, 1962; Bull, 1977), include chapters on transnational corporations, ethical and environmental concerns, and secondary actors in a State-centric system, there is no analysis of the role of banking and the financial system in the political systems (Keohane and Milner, 1996; Rosenau, 1997).

### 7.1 *The Swing of Power between the Financial System and Political Authority: The Theory of Susan Strange*

A decade after Gilpin's work, Susan Strange, in her work *Mad Money* (1998), recalling the dominant themes that are reflected in her work since the 1970s, highlights three specific themes: (i) the need to include the international finance policy system in the study of international relations; (ii) the need to go beyond liberal politics and economics theory and recognize that the structural power of capital is not constant, and, therefore, cannot be arranged in the logic of liberal economy (Brown, 1999; May, 1996). Not surprisingly, Strange uses the term 'mad money' (1998); and (iii) the need to recognize that 'areas of significant ignorance' in our understanding of the role of the international financial system in an era of technological revolution and globalization are getting bigger rather than smaller (Katzenstein, Keohane, & Krasner, 1998). Regarding this last point, in her 1970 article, *International Economics and International Relations: A Case of Mutual Neglect*, Strange has already argued that the international political economy is centred on power, and economics has an impact on social and political dimensions. For Strange, there are two types of power: relational power and structural power. While relational power refers to physical and material capabilities that can be measured and estimated, structural power refers to "shaping and determining the structures of the global political economy [or international system] within which other States, their political institutions and their economic enterprises and (not least) their scientists and other professionals must operate" (1988; 42). In other words, structural power provides a framework for key decisions affecting the international order. According to Strange (1998a), four major world structures — production, security, finance, and knowledge — are connected in a quadrilateral, such that, despite their varying weights, none is more significant than the others. These four major global structures influence and benefit actors holding structural power.

In *States and Markets* (1988), Strange hypothesizes that the most neglected channel of power is financial access, which is also the most important because it allows us to understand how the world works. Her analysis focused on what she called the 'authority market nexus'; the swing of power between the financial system and political authority. According to the author, by the 1970s, a dangerous gap had been emerging between States and the global banking-financial system: while nation-States were bounded by territorial boundaries in a world of fragile intergovernmental cooperation, banking and financial markets would be able to violate regulations and reign free, creating more uncertainty and risk in an already chaotic environment. Therefore, the topic of what kind of power banks hold needs to be examined.

### 7.2 *The Banking and Financial System as the Third Dimension of Power of Lukes' Theory*

Michael Barnett and Robert Duvall define power as "the production, in and through social relations, of effects that shape capacities of actors to determine their circumstances and fate" (Barnett & Duvall, 2005: 39, 55). This formula disavows notions of power that conflate power with all effects, since doing so equates power with causality. Taking into account this approach, this essay examines the influence of banks and the financial system by starting with Steven Lukes' theory. When, in 1974, Lukes published the work, *Power: A Radical View*, American political science was dominated by diverse schools and a heated internal debate about the structure of power. In the 1950s, the 'theory of elites', through the works of Charles Wright Mills (1956) and Floyd Hunter (1953), highlighted how power at the national and local levels was always exercised by an elite of an economic nature.

Robert Dahl's attempt to found pluralism on the overcoming of the theory of the elites gave life to a new line of studies, destined to shift the central core of the analysis of the power structure of a society in the decision-making processes within which power is exercised. Like other main exponents of pluralism, Dahl maintains that the analysis of the exercise of power starts from the assumption that, in a context characterized by a multiplicity of conflicting interests, power must establish the conditions for its exercise, in order to try to mitigate this conflict (1959). It is from pluralism that Lukes started to argue that power must be seen in a broad sense and that it is necessary to analyse its less evident aspects. Lukes' perspective is positioned along an ideal line that perceives the contrast between conflict and consent as the two extremes, with a series of internal gradations, ranging from assent to submission, from persuasion to manipulation.

Lukes (1974) defines power in terms of what he calls 'dimensions': namely, decision power, non-decision power, and ideological power. The third dimension, which Lukes (1974) provides as an 'in-depth critique' of the behavioural emphasis of the first two dimensions of power, consists, of influencing or determining the wishes of others, and controlling the agenda of the issues on which to make decisions. It allows us to take into consideration both the visible and latent conflicts that are excluded from the political process. True power is an ability to influence, not an actual exercise, and the less visible that power is, the more effective it is. Lukes uses the third dimension of power to describe corporate dominance in the contemporary world, which is based on free market ideology and thought to be the only viable option (Kegley & Wittkoph, 1995; Miller, 1994).

Regarding the banks and financial centres, their way of influencing States is evident. Indeed, let's consider the financial lobby in Europe after the 2007/2008 crisis. The 2008 global economic collapse, which fuelled a financial crisis, made clear the financial markets' huge influence and destructive power, and, as a consequence, the critical necessity for stricter regulations on financial markets. The financial lobby in the European Union (EU) has been successful in waging campaigns against reform, which has made it difficult. Its ability to block measures it doesn't like has been made painfully clear in cases involving banking regulation, derivatives, credit rating agencies, accounting standards, and many other topics. In total, the financial industry lobby in the EU has access to more than 700 organisations, more than 120 million euros in annual spending, and at least 1700 lobbyists, including all banks and businesses concerned with financial regulatory concerns.

This implies that, for instance, a Commission public officer will deal with four financial industry lobbyists. These individuals take action during the planning stages of legislative proposals and policy initiatives to provide advice to the Commission within the very earliest stage of the decision-making process, affecting the outcomes of EU law (Wolf et al., 2014). This paradigm also demonstrates that other actors, in addition to States, are involved in the current global issues that demand State regulation, such as climate change, conflict, food shortages, poverty, overpopulation, and a lack of natural resources (Kegley & Wittkoph, 1995; Miller, 1994).

Therefore, by applying Lukes' theory, it can be said that the power of banks and financial centres can be considered a part of the third dimension because they have the ability to influence States, more so than to set their agenda. But can banks and financial institutions merely exert influence over the States or can they also directly determine the social and political global agenda?

### 7.3 Beyond Strange and Lukes' Theory

If the theories looked at thus far help to comprehend the function that banks and the financial sector play in social and political systems, the definition of the kind of power possessed by these non-State players is still up for debate. Can it be argued that banks and financial institutions just have the ability to influence States, or are they also capable of acting as decision-makers? How do they interact with States in this last instance?

Banks and financial centres are actually proving to be capable of determining political and economic outcomes globally, in a clear and non-subtle manner, as well as of influencing the general public and political decision-makers in both developed and developing countries. Not only this, but the ability to influence national policies, even when they endanger relations with other countries, has given banks and financial centres a power that can undermine the authority and sovereignty of governments. Banks and financial actors today have a considerable impact on how nation-States

behave, helping to define foreign policy thanks to their independence. Banks and financial hubs have also started to displace nation-States in many areas today (Miyoshi, 1993). They can interfere between States, or even take on a decision-making function similar to that typically given to States, because they are active in multiple States. Banks and financial centres' behaviour is evident, not hidden. As has been previously shown, they openly lobby in national and international contexts, and mobilize their home or host States and national and global public opinion.

According to Harold Laswell and Robert Kaplan (1950: 75) in their book *Power and Society*, "the concept of power is perhaps the most fundamental in the whole of political science; the political process is the shaping, distribution, and exercise of power". In a similar vein, Hans Morgenthau stated in *Politics Among Nations* (1948) that power is always the ultimate goal of international politics, no matter what the long-term objectives may be. Even authors of the international relations field focused on the analysis of anarchy agree that the international system is "deeply implicated with power" (Mattern & Zarakol, 2016: 625).

The notion of power is up for debate among academics, despite being the discipline's basic idea. "The idea of power is one of the most problematic in the field of international relations" declares Gilpin (1981: 13). Dahl's (1959, 202-203) definition, which states that "A has power over B to the extent that it can persuade B to do something that B would not otherwise do", is the one most frequently quoted in political science. Scholars and theorists expanded on Dahl's concept of power almost immediately after he wrote it, recognising other aspects of power (Digeser, 1992; Lukes, 2005).

However, the debate has never reached a common definition, and the same authors of the most iconic texts on power have revised them several times.

There are at least seven editions of Morgenthau's *Politics Among Nations*, six editions of Dahl's *Modern Political Analysis*, and two editions of Lukes' *Power: A Radical View*. Similarly, Nye has written about soft power (1990, 2004, 2017, 2021), smart power (2011, 2011a) and sharp power (2018). But there has never been a consensus definition in the discussion.

Power "functions in numerous ways and has various manifestations that cannot be represented by a single formula", according Barnett and Duvall (2005), commonly referenced on this subject during this century.

Therefore, it is probably insufficient, if not impossible, to accept a single concept when discussing the influence of banks and financial centres.

#### 7.4 Financial System as an Independent Structural Power

As previously discussed, according to Strange (1988), four major world structures — production, security, finance, and knowledge — are connected in such a way that, despite their various weights, none is more important than the others, and they equally provide a framework for the key decisions that the relational powers adopt and which affect the political system. As a result, one can consider that a structural power effectively refers to an actor's capacity to influence the international scene by setting the rules of the game (Strange, 1988; May, 1996; Tooze & May, 2002).

Strange (1987) employed her theory to examine how the United States (US) fits into the process of world affairs through the employment of the four structures. The US has long held the top spot in the global manufacturing system, with the largest gross domestic product (GDP) in the world, as well as the top companies in the oil, aviation, and information technology sectors. With its unrivalled military might, it has served as the primary State in the security system, protecting the safety of the global order. The US has long dominated the financial world, due to the US dollar's role as the reserve currency of the world, its effect on credit expansion, and its leadership role in international financial operations.

In accepting Strange's approach, this work goes beyond the author's theory by proving that the banking system and financial power currently interact together to determine possible political decisions more than other structural components do. Indeed, while discussing power, one must consider, as May quotes (1996: 173) "where the power is and how it affects results" or in other words, who benefits from the power; *cui bono*?

Three of Strange's four structures — production, security, and knowledge — are not independent, and in some respects depend on a variety of factors, including the economic environment in which people live, the investments that nations want to make, and the political objectives of a State, which may decide not to influence, for example, military technology or equipment. On the other hand, it's crucial to consider the characteristics that allow financial and banking centres to operate more autonomously from governments.

For instance, going back to the Strange case study in the US, one must take into account how the Federal Reserve, also known as 'the Fed', operates mostly independently of the government and other elements, such as production, security, and knowledge. This occurs, although the Fed can be considered a quasi-governmental body as its board of governors is made up of individuals chosen by the President and confirmed by Congress. Particularly in the wake of the financial

crisis of 2007–2008, the Federal Reserve's dual public–private structure continues to be a source of intense debate on the question of whether monetary policy supervisors are completely disconnected from the realm of government. Politics has a role to play in supporting monetary policies that may aid in re-election now, but have long-term negative economic effects in the future, according to pro-independence activists. Contrarily, those who oppose independence contend the government's economic strategy, and the central bank's need to be tightly integrated.

In actuality, the Fed – like other central banks - is given a good measure of independence, in the sense that decisions regarding monetary policy and related matters are made independently, and are not subject to federal approval (Blystone, 2022).

### *7.5 The Capacity of Banking and Financial Centres to Decide States' Activities*

While keeping the emphasis on individual diversity, Lukes' theory offers a simple and obvious explanation of the power domain that goes beyond just 'interests'. As a result, Lukes' theory served as the theoretical basis for this thesis, since it provides insight into the dynamics that have evolved in the global political system in the years following the Cold War's conclusion and the start of globalisation. Lukes' concept of power as a process effectively captures the dynamic and connectivity that have characterised social and political systems ever since. Lukes' work can provide more aspects than other works, such as those by Foucault, for identifying the type of power that banks and financial institutions wield in international relations. Foucault's theory is helpful for understanding how power systems, rather than being neutral, shape knowledge, which in turn shapes the reality of individuals who are composed of it. However, Foucault's conception of power is excessively broad. The Author (1978: 93) affirms that "Power is everywhere; not because it embraces everything, but because it comes from everywhere [...] Power is not an institution, nor a structure, nor a possession. It is the name we give to a complex strategic situation in a particular company". This makes it challenging to investigate more intricate interactions without considering them to be the by-product of a broader power network.

Despite this, a Foucauldian viewpoint is also incorporated in Lukes' framework, namely how power can be manipulated subtly.

According to Lukes "A exercises power over B' [...] by influencing, shaping or determining his [sic] very wants" (2005: 27). He contends that what appears to be genuine submission to authority may in fact be the consequence of deft manipulation and 'shaping' of beliefs, values, and 'interests'. According to Peter Morriss (2006), this formula commits the "exercise fallacy" by analysing the use of power while ignoring its potential.

As a matter of fact, assuming that power only occurs when 'A' affects 'B' means ignoring 'A's 'capacity' to influence 'B', which also includes the results of the latter's action. In his second edition, Lukes argued that, rather than addressing the concept of power, his theory focused on the more limited idea of dominance and, more specifically, on the issue of how the powerful "secure the compliance of those they dominate" (Lukes, 2005: 110).

Nevertheless, he insists that his strategy is helpful in challenging the exercise of power, even though it fails to capture power in its entirety. In fact, if one examines the issue of power in relation to banks and financial centres, Lukes' position appears reductive to comprehending the role currently played by non-State actors who yet engage with States.

Banks and financial centres presently have the ability to make decisions that can change international relations, in addition to having an impact on global governance, as was the case in the past. There are several reasons why it occurs.

First, unlike those in positions of authority who are subject to both domestic and foreign legislation, banks are not held to the same standards.

Second, compared to many State actors, their actions are less complicated because they operate beyond the gaze of the bureaucracy and are not held accountable to the general public.

Third, they are well-equipped to uphold their values, thanks to their access to a variety of resources and connections to international networks (Lindblom, 1977; Poulantzas, 1969; Massoc, 2022; Culpepper, 2015).

In light of this paradigm, banks and financial institutions have the power to guide the decisions and actions of others, notably States, in ways that may have a direct impact on the global order (Gabriel, 2004).

## **8. Do Banks and Financial Centres Determine Global Political Agenda?**

The 2008 financial crisis has renewed academic interest in the study of structure, and, in view of the arguments presented above, authors contest the idea that States are mere hostages of the structural power of the banks, which is the banks' ability to provide credit to the real economic power. Massoc (2015) argues that the State's priority over the banking system results from political choices on what structurally matters most to the State.

Based on an analysis of parliamentary debates in France and Germany between 2010 and 2020, the author shows that

power dynamics within the State largely shape political priorities towards banking at the domestic and international levels. The comparative case study shows that, although the two countries have different growth, and extremely different banking models and systems, in both the French and German systems, banking strategies largely depend on power dynamics within the State.

However, Courtney Rickert McCaffrey (2022) specifies that in the parliamentary system, the States' control over the banking system depends on the independence of central banks, and their role in banking supervision.

Moreover, after the 2007/2008 crisis, the business models of European banks significantly developed their market-based activities, giving rise to what Ian Hardie and David Howarth (2009) have called "market-based banking" to emphasise an alternative to the traditional opposition between bank- and market-based financial systems.

Charles Calomiris and Stephen Haber (2014) present an interpretation of the co-dependency between banks and governments, which is regulated by arrangements which work on specific deals that the authors call "the banking business game". Modern State governments badly need banks, even to lend money to the government itself. In return, the banks need government for their legal existence, and for various privileges, including restricted competition and government support. Precisely speaking of the European system, which the authors (2014) referred to as the 'perverse nexus' of governments and banks, European banks are now excessively exposed to the credit of European 'sovereign borrowers', i.e. governments.

The theory of the 'perverse nexus' can be utilised for explaining some of the most recent events. As economist Brendan Brown (2014) has observed, for example, Spanish and Italian banks bought up large quantities of national government bonds in an effort to save their respective sovereign nations from bankruptcy. This is also evident in the European Central Bank's "whatever it takes" support of government debt, and, even more obviously, in the Federal Reserve's \$4 trillion-dollar monetization of US Treasury debt and government mortgage bonds. As a result, one can consider that the banking system at large is inherently linked to political trends.

On the basis of these considerations, therefore, authors such as Peter Dombrowski (1998) believe that "although globalized financial markets now appear beyond the control of individual States, States, with their policies, have not lost their meaning". They have simply adopted a more permissive role.

As we have seen, another part of the doctrine, including Strange, has a different opinion according to which States have withdrawn from the power of the markets and financial operators. By way of example, the author emphasises that France and Germany's financial markets were privatised, deregulated, and liberalised, as a result of financial changes affecting the global market, rather than US governmental involvement.

Even if one accepts Calomiris and Haber's theory about the perverse link between governments and banks, there is no denying that State policy cannot always function without banking and financial systems. This happens more than *vice versa*.

## 9. The Case Study of PNB Paribas

BNP Paribas (BNPP), which is the largest bank in France, and fourth largest in the world by total assets, is part of other banks and financial centres' systems, which was effectively demonstrated by research conducted in 2011 by the Swiss Polytechnic Institute (Vitali et al., 2011).

The research found that the global-political economic system is characterized by a system of brutal economic concentration, in which a network of 1,318 multinational corporations owns, or controls, most of the world's large frontline enterprises and factories, accounting for about 60 % of global turnover. Behind these 1,318 businesses, 147 companies' control or own 40% of the total network wealth. That is, less than 1% of multinational companies control 40% of the total network of companies in the world. This ultra-minority corporate power is predominantly composed of financial institutions which, among other things, are the real owners of the big oil and mining multinationals. Those financial institutions, which control 40% of the total network of global leading firms, include, among many others, HSBC, BNP Paribas, Deutsche Bank, CreditSuisse, Bank of America, Barclays Bank, J.P Morgan Chase and Goldman Sachs Group (Vitali et al., 2011). These non-State entities have the ability to impact the political landscape through lobbying efforts in parliaments, and have direct influence over the regents. Additionally, as we have already argued in this article, they may function in defiance of the decisions made by States about their policies. BNPP acted in this way.

### 9.1 BNPP Paribas v States?

On April 9, 1995, a US college student studying in Israel was killed in a bombing by a suicide bomber who blew up her bus. The bombing was carried out by the Shaqiqi faction of Palestinian Islamic Jihad, a terrorist organization funded by the Islamic Republic of Iran (Iran). The victim's father, Stephen Flatow filed a lawsuit against Iran. When Iran failed to pay the \$250 million court-awarded settlement, Mr. Flatow sought to collect damages from the Alavi Foundation, a



charity which he claimed was a front for the Iranian government. A Manhattan district attorney investigated Mr. Flatow's allegation, and found that Iran had complete control of the charity. Anyway, examination of the bank records of the charity did not disclose any transactions with Iranian banks, as authorities suspected, but instead disclosed transactions with Credit Suisse AG (Credit Suisse).

This story of illegal Credit Suisse financing led the Manhattan District Attorney's Office to extend the investigations and to find links of BNP Paribas with Iran as well, and the genocidal regime then in power in Sudan (Burner, 2015).

In particular, with regard to Sudan, the US Government enacted broad sanctions in 1997 in response to evidence of widespread human rights violations committed by the Government of Sudan. These sanctions forbade financial institutions based in the US from providing credit or facilitating financial transactions for the Government of Sudan. In 2006, more penalties were levied. By facilitating financial transactions for the Government of Sudan in violation of the sanctions, BNPP allowed the government to profit from the sale of oil and acquire military equipment so that it could continue to extract oil in disputed areas of Sudan. Between July 2006 and June 2007, BNPP processed \$6.4 billion through the US on behalf of Sudanese firms that were subject to sanctions, including \$4 billion on behalf of a financial institution owned by the Sudanese government. As the Department of Justice declared, in 2014, BNPP admitted to collaborating with the Government of Sudan to break American law by evading sanctions intended to stop abuses of human rights against Sudanese residents of Darfur. Additionally, it admitted guilt under New York law to conspiracy and manipulating company records. In exchange for agreeing to a plea deal, BNPP agreed to pay close to \$9 billion for helping sanctioned nations access American financial markets and laundering financial transactions. It was "the biggest financial penalty ever issued in a criminal prosecution", and "the first such plea by a multinational financial firm to systematic violations of US sanctions legislation" (Department of Justice, 2014). The US Congress redistributed the money to those who had been the victims of domestic terrorist attacks, leaving Sudanese victims without any compensation for their losses.

As a consequence, in 2016, the lawsuit *Kashef et al. v. BNP Paribas*<sup>2</sup> was brought as a class action by twenty one Sudanese-American victims of Sudanese genocide, and an alleged class of over 10,000 refugees. They alleged that BNPP acted as the *de facto* central bank for the genocidal Sudanese regime from 1997 to 2009, skirting American trade embargoes to give the Sudanese government unauthorised access to American financial markets, which was essential for the funding of the Sudanese government's genocidal campaign. The plaintiffs - victims of murder, rape and torture - are still seeking to hold BNPP accountable for illegally funding Sudanese dictator Omar al-Bashir's genocidal regime through fraud and sanctions evasion.

Moreover, in 2020, Paris prosecutors have opened an investigation into French bank BNPP over allegations of complicity in crimes against humanity in Sudan. The probe comes after nine Sudanese plaintiffs, who say they are victims of rights abuses by ousted Sudanese President Omar al-Bashir's former government of Sudan, filed a legal complaint against BNPP.

### 9.2 What Emerges from the BNPP Case?

Without doubt, the BNPP case has given rise to numerous reflections, mostly on a legal level, such as the company's accountability for international crimes like crimes against humanity and genocide.

However, this case is equally important as a case study proving the essay's argument.

The BNPP acted as a non-State player acting with the same authority as States, and capable of contrasting States' decisions and interfering with, and changing, the relationship between States. Indeed, as the attorney general specified "BNPP, the world's fourth largest bank, has agreed to plead guilty and pay penalties of almost \$9 billion for performing the sanctions violations, unlawfully opening the doors of the US financial markets to three sanctioned countries, Sudan, Iran, and Cuba [...] The bank did so deliberately, in ways designed to evade detection by the US authorities" (US Department of Justice, 2014).

It is not the first time that a bank has negotiated a deferred prosecution agreement. In 2012, for example, HSBC agreed to enter into a deferred penalty settlement and pay a \$1.9 billion fine to regulators for serving as a go-between for Mexican drug cartels. However, differently from other cases, the BNPP case undoubtedly has implications for the larger political spheres. First, BNPP has interacted among States with the same independence and power. Second, it has taken decisions and policies able to affect the global political agenda. Finally, because of the dominance of the dollar and US markets, it has been said that the US used its financial hegemony in this instance to attack a significant French institution and to extraterritorially apply US law (Masters, 2014).

The case of BNPP must be read through the theories on the concept of power which is defined in various ways in

<sup>2</sup> Case No. 1:16-cv-03228-AJN (S.D.N.Y.)

political affairs (Barnett & Duvall, 2005).

Strange's theories on the structures of power and Lukes' theories on power diffusion have already been mentioned. It is evident from their lessons that interest groups, with non-State actors, engage and compete for power in any democratic political structure. Banks, including BNPP, are unquestionably becoming more and more a part of this structure. Indeed, what can be understood from the BNPP case is that banks can interact in the international relations dimension, as an interest group able to exercise power - even against States' decisions. Lukes' theory (1974) states that the political agenda is controlled by a kind of subtle and indirect power that, although not visible, drives the political agenda. Alongside the ideological State apparatuses that employ power within a society, there are other realities, which constitute an invisible hegemonic circle on which the State depends (Althusser, 1976; Ransome, 1992).

BNPP has certainly acted as a driving force on the political agenda. Its activity carried out by BNPP goes beyond the simple support of a government's policy playing a kind of power which is able to shape and determine the relationships among States (Barnett & Duvall, 2005; Hopf, 1998). BNPP's behaviour recalls Nye's (2021:198) definition of power, which claims that "power is the ability to do things and [...] influence others to get the results we want". This definition inspires resources of power that focus on results. It is arguable whether this focus on tangible forms of power alone ignores the fact that resources don't always produce the desired behavioural outcomes. Indeed, the paradox of resource-based definitions is that even the most gifted States may not always achieve the desired results.

Nevertheless, according to Nye (1990, 2004, 2017; 2011a), the distinction between 'soft power' and 'hard power' is not one of resources, but rather of tactics, as "*soft power is the ability to obtain preferred outcomes by attraction rather than coercion or payment*" (2017;2), while the latest outcomes characterize hard power.

Power can be applied in many different ways, such as coercion, reward, allure, and persuasion. One of the major challenges at the moment is being able to integrate these ways by State and non-State, which are currently both players in the social and political processes, considering the transfer of power from States to non-State actors caused by the digital revolution and globalisation. For this reason, a greater understanding of power, which avoids the temptation to disregard soft power in favour of thinking of power as only 'hard power', is necessary. Indeed, power is still considered according to Robert Dahl's definition, whereby "Power is the ability to get others to do what they otherwise wouldn't do" (1957: 202–203). This is a description of a portion of power, but it does not encompass all forms of power; in fact, it does not include the capacity to set the global political agenda without using coercion.

However, speaking of banks and finance centres the question is also another. While banks and financial institutions are generally seen as soft power instruments for States (Tsygankov, 2006; Hendrik, 2022), one must reconsider this idea in light of the fact that they have autonomous, independent power that contrasts with that of States. In exercising their power, banks and finance centres also go beyond the distinction between soft power and hard power. In fact, they exercise the power dependence theory (Emerson, 1962), according to which, the dependence of one or more subjects by an actor translates into the power of that actor.

## 10. What is the future for States?

The BNPP case study supports the idea that banks and financial systems now play a different role than they did in the past, by acting as a contracting actor between States, challenging a State and opposing the same States decision, in so influencing the political system (Kynaston, 2017: 44).

On the basis of this thesis, banks and financial centres exercise a 'power dependence' on States and, as a result, they may be, at least, equated to State actors in terms of power, since they have the legitimacy and strength that certain theories emphasise as an economic and military power, as a material definition of sovereign authority (Waltz, 1979; Mearsheimer, 2001).

Indeed, if they undoubtedly lack the resources of military forces, it is also true that other forces, in addition to the military, are now used to fight wars. Apart from the examples mentioned above, let's consider for example the role that banks play in the recent war in Ukraine; the Ukrainian government has accused banks, such as JPMorgan, HSBC and Citi, of aiding the Kremlin's war efforts in Ukraine despite US and EU restrictions (Bala, 2022).

With regard to legitimacy, despite the open debate on what is meant by "legitimacy", a system is said to be legitimate when it is judged to be deserving of internal and/or external recognition (Buchanan, 1999). Banks, particularly central banks, are now known as the last-resort policymakers because to their quick decision-making, control over the only global means of exchange, namely money, capacity to produce infinite liquidity, and loss of national state sovereignty (Lanzalaco, 2015).

The issue must be viewed in the context of what Georg Sørensen (2004) calls the 'transformation of the State' which refers to the pluralization of cross-border State agencies through contested and uneven processes of fragmentation, decentralisation, and internationalisation of State apparatuses.

According to Gilles Deleuze, and Felix Guattari (1986), the State is *Ur-Staat*, or original, because it is constantly at the origin, and as such, cannot be completely overwhelmed. This work accepts the theory that the concept of 'sovereignty' is evolving in response to the complicated processes and demands of globalization, and, at the same time, with respect to the conventional Westphalian notion of sovereignty which in fact never really existed in its entirety ((Hameiri et al., 2019; Mayntz, 2002; Jayasuriya, 2001).

It is undoubtedly now that the global system based on sovereign nation-States must be reconsidered on the basis of multiple phenomena deriving from globalization, including banking and financial power, as highlighted here. The question is not only to analyse how the role of the State is now threatened, but also to reflect if, and why, it is convenient for State power to be preserved compared to other emerging powers.

## 11. Conclusion

This thesis demonstrated how banks and financial centres have acquired an increasingly relevant role in the global social and political system following the end of the Cold War and globalization.

Two key components illuminated by the theories of Lukes and Strange, have come to mind as a basis for this thesis. First, according to Strange, the four factors that impact material interactions in favour of an actor with decision-making authority are finance, security, production, and knowledge. Second, according to Lukes, financial institutions such as banks can influence decision-making, which is one of the dimensions of power along with non-decisional power and ideological power. Lukes employs the concept of the third dimension of power to explain corporate dominance in today's society. However, this study goes beyond the theories of Lukes and Strange. Instead of being equal to the other structures, as Strange claimed, financial power has the unique potential to act independently and incisively on the power. Similarly, Lukes' notion that 'A' controls 'B' "through influencing, moulding or deciding his [sic] very needs" (2005:27) was rejected by this study as being too limited because it only considers the processes of power, not the outcomes of acts.

After considering the theories of power, in particular that of Nye's, this thesis concludes that banks and financial centres exercise a 'power dependence', outlined in Richard Emerson's theory (1962). An analysis of a number of examples, and, more importantly, the investigated case study of PNBB Bank, demonstrates how States are now increasingly dependent on banks and financial centres which are now interacting actors with States, and are dictating the political agenda in a manner similar to States. Given this fact, the question to ask is less whether the State's position in international affairs is in danger, than how it is to proceed. States and governments continue to be the most influential actors in international politics, but they are no longer the only ones present, and having many new participants on stage leads to a different sort of politics. In trying to consider this, we must acknowledge that while we are familiar with the gradual diffusion of power throughout history, we are not familiar with the idea that banks and financial centres can decide the global political agenda, even contradicting States. Instead, we should think about how much it would be appropriate for States to reclaim authority over areas that are progressively being occupied by private entities, such as banks and financial centres.

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