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The Latest Financial Crisis: IR Goes Bankrupt

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Summary

The latest financial crisis has put the state and the international system to the test. In this context one would expect an explosion in literature from the discipline that claims academic monopoly over the international sphere: International Relations. However, as our research shows, surprisingly few IR scholars have made any attempt to analyse the crisis. This article seeks to explain this paucity of engagement, and the failings of those few works that did attempt to engage with the crisis, by exposing the limits of the discipline's orthodoxy. It argues that the discipline of IR has been predominantly concerned with the analysis of political interactions of sovereign states, their external behaviour towards each other in an anarchic international system, with each of these territorial units seen as pursuing their national interests, usually vaguely defined in terms of power or resources. With such privileging of the political over the economic, of the external over the domestic, of state actors over non-state actors, and of the study of conflict over the analysis of other types of interactions, the discipline of IR has inherently and structurally been unable to engage with, and render intelligible, the latest financial crisis and its consequences. The article then sketches out an alternative approach which seeks to overcome the dichotomies that characterize the orthodoxy and provides a more holistic explanation of the crisis.

Résumé

La dernière crise financière a mis l'État et le système international à rude épreuve. Dans ce contexte, on aurait pu s'attendre à une explosion de la littérature de la discipline qui revendique un monopole intellectuel sur le domaine international : les Relations internationales (RI). Or, comme le constate cette recherche, très peu d'universitaires spécialistes des RI ont tenté d'analyser la crise. Le présent article cherche donc à expliquer ce manque d'engagement ainsi que les apories du petit nombre d'œuvres qui ont essayé de traiter de la crise en mettant en évidence les limites de l'orthodoxie de la discipline. L'article affirme donc que la discipline des RI s'intéresse principalement à l'analyse des interactions politiques entre États souverains, leur comportement les uns vis-à-vis des autres au sein d'un système anarchique où chacune de ces entités territoriales poursuit ses intérêts nationaux, souvent vaguement définis en termes de pouvoir ou de ressources. En faisant ainsi prévaloir le politique sur l'économique, l'extérieur sur l'intérieur, les acteurs étatiques sur les acteurs non étatiques ainsi que l'étude du conflit sur l'analyse d'autres types d'interactions, la discipline des RI est structurellement, en soi, incapable de traiter ni de rendre intelligible la dernière crise financière et ses conséquences. L'article esquisse une autre approche qui cherche à surmonter les dichotomies qui caractérisent l'orthodoxie et à offrir une explication plus holistique de la crise.

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Sommaire

> "[…] the study of international relations, in most universities at the present time […] is allowing the gulf between international economics and international politics to grow yearly wider and deeper and more unbridgeable than ever"
> Susan Strange (1970:307)

Introduction

International Relations (IR) as an academic discipline has always claimed a monopoly over the study of the "international," of the "international system," which has been conceived as a separate realm of social activity requiring a special discipline to analyse its functioning. The belief that there is something distinct about the "international system" which is beyond the scope of other social scientific disciplines has been central to the development, identity and the very raison d'être of IR ever since its creation in the aftermath of the First World War.

It would therefore be legitimate to expect IR scholars to be among the first to analyse the origins and the implications of the latest financial crisis which, as a kind of "global tsunami" as Alan Greenspan (2008) has described it, has swept the entire international system and whose consequences could have been – and, given the current debt crisis in a number of the Western economies, still could well be – truly cataclysmic. After all, the last comparable crisis – the Great Depression of 1929 and mass unemployment, political upheaval and protectionist policies that it had resulted in were followed by the bloodiest conflict in human history. This is not to imply that such dramatic consequences are always to be expected every time there is a major economic crisis, nor is it to assert the Second World War was caused by the Great Depression. It is only to observe the major disruptive outcomes for the international system that a comparable crisis preceded. It is therefore plausible to suggest that the potential of the current crisis to produce serious outcomes for international relations should at least be envisaged, and where else if not in IR.

The research we conducted therefore sought to answer the following key questions: Did IR scholars publish works that attempted to analyse the crisis and its implications for IR? If so, which conceptual tools, frameworks and narratives did these authors use to render the crisis intelligible? Our analysis of works published in major IR academic journals over the past four years revealed however that very few IR scholars have attempted to seriously analyse the crisis. For a discipline asserting the monopoly over the study of the international system such an ambivalent attitude with respect to a major crisis with potentially grave consequences for the international system – its very object of study – is, to say the very least, surprising.

The central objective of this article is to analyse why IR scholars failed to comprehensively engage with the crisis. We will focus mostly on dominant ontological assumptions and propositions, and more particularly on the implications of the fact that the discipline of IR has been predominantly concerned with the analysis of *political* interactions of sovereign *states*, their *external* behaviour towards each other in an anarchic international system, with each of these territorial units seen as pursuing their national interests, usually vaguely defined in terms of power or resources. Here a special word needs to be said about the field of International Political Economy (IPE). There has been a lot of debate about the relationship of IPE to IR, as to whether IPE is a sub-field of IR or a discipline in its own right. In this article we treat IPE as part of IR – when we say "IR" we mean IR and IPE – for the simple reason that our review of academic journals includes those that publish works of authors from both fields. We will see below, although this will not be dealt with extensively, how similar – and how similarly hollow – the analyses of the financial crisis have been in Economics and IPE. This is not a wholesale rebuttal of IR and it must be acknowledged that efforts have been made to overcome the shortcomings described above.

However many of these efforts and the paradigms from which they are borne remain confined to the margins of the discipline. Moreover, the conceptual tools which these "alternatives" offer are often similarly inadequate in understanding phenomena such as the recent financial crisis.

The article is structured as follows: we first examine the orthodoxy within IR – the manner in which it sets boundaries on what may be seen as legitimate concerns of the discipline, and the way these concerns are usually approached. We then demonstrate how such structuring of research in IR has shaped the treatment of the financial crisis by the discipline: the analysis of the crisis is largely absent from IR, while the work of those scholars who have attempted to engage with it suffers, for the most part, from the shortcomings that characterize the orthodoxy. We show that the rare attempts developed within mainstream conceptual frameworks, by approaching the crisis through traditional state-centric and exclusively political lenses – focusing entirely on the realm of the international and neglecting the role of domestic factors – have essentially done what they have always done; to produce an extremely superficial and reductionist examination of the phenomenon. Having identified the shortcomings of the existing IR publications on the latest financial crisis, we outline the contours of an alternative approach, which seeks to open up the state, to overcome the existing dichotomies, and to explain the crisis with reference to the contradictions of capitalist social relations.

I. The Bounded Realm of Orthodoxy in IR

In this section we develop a series of propositions about the manner in which the discipline of IR has defined its subject matter and has constructed its intellectual "tradition." The objective that we seek to achieve here is to expose the dominant orthodoxy within the discipline which has been responsible for setting the boundaries to what may be seen as legitimate ontological concerns of the field, and which has performed the disciplining function with respect to what counts as acceptable epistemological and methodological frameworks. The focus of the critique will be on ontological issues.

The historical narrative of the development of IR as an academic discipline consists of the discussion of the so-called "great debates" which have supposedly marked the discipline ever since its creation in 1919, and the reconstruction of the discipline's philosophical roots, which are traced back to classical Western political theory.

Thus, we are told, particularly in increasingly numerous IR textbooks (e.g. Burchill et al. 2005; Griffiths, O'Gallaghan and Roach 2007; Brown 2005; Mingst 2004), that IR has gone through three defining "Great Debates." For some authors (e.g. Ole Wæver 1998:715), the debates are so fundamental to IR that there is no other established means of telling the history of IR. As Chris Brown observes, "it has become customary to write of the history of IR theory in terms of a series of rather grandly titled 'Great Debates'" (2005:19).[2] Constructed this way, the discipline's history creates an impression of difference and antagonism among various protagonists who, on the face of it, hold irreconcilable positions. However, we would argue that such a narrative reproduces the dominant orthodoxy, which, despite post-positivist efforts, still largely structures the discipline around the analysis of inter-state, political relations, divorcing them from economic relations, and treating the international in separation from the domestic. As Maclean puts it, disputes within orthodoxy, "between the idealists and the realists, between the traditionalists and the scientists or, recently, between all these and the post-positivists, present the orthodoxy as though it is a domain of continuous debate or heterodoxy. This tends to conceal the necessary contribution these disputes make to the very confirmation of the boundaries [of IR] as given" (Maclean 2000:29-30). Thus, despite attempts to deconstruct the state by Post-Modernists and, to a smaller extent by Constructivists and Feminists in the most recent of these debates, the state is still largely taken as given – it is treated as a unitary actor, with an exclusive focus on

2. Indeed, this narrative of "Great Debates" is also reproduced in academic syllabi for IR courses, particularly in America (New York University 2006; Harvard 2007; Harvard Kennedy School 2008, Yale 2010; London School of Economics and Political Science 2010).

its external behaviour, which in turn is mostly examined in terms of its political, military, legal or ethical aspects, at the expense of economic issues. That is to say, there is little attempt to provide any theory of the state – indeed, it is either explicitly (as in the case of Waltz (1979), who observed that despite differences in the internal constitution of states their foreign actions are similar), or implicitly (as is the case in the majority of IR publications), assumed that the subject matter of IR is the international, as opposed to the domestic or the national. In short, why bother and waste analytical energy if political communities as diverse as slave-owning societies of Ancient Greece, feudal principalities and absolute monarchies, socialist states and liberal democracies, have always shared the goal of satisfying their selfish interests at the expense of those of others?

By rejecting any need to examine whose interests the modern state was brought to serve, what kind of antagonisms it seeks to address, how state institutions are related to the economy and social relations of production, and so on, IR renders itself incapable right from the start to *explain* foreign policies of states, except on the basis of dubious claims about the selfishness of human nature or international anarchy. What we wish to emphasise here is that, by emptying the state of its social content, IR is defective in explaining why certain policies are chosen over others in each particular case. Furthermore, by categorically separating the domestic from the international and by privileging the latter, IR remains unable to consider how the two realms constantly affect each other. These shortcomings are exposed by the financial crisis, which, as we will argue below, broke out as a result of a set of internal (to the United States) and global processes, mutually reinforcing each other. IR, however, as we will see in the next section, is simply incapable of dealing with such phenomenon, except superficially.

In addition, and related to the dichotomy domestic/international, IR has been primarily concerned with non-economic issues – political, military, legal, ethical and cultural aspects of international relations. In other words, as it was deemed possible to approach the state exclusively from the point of view of its external behaviour, it was also believed, particularly in the period before the 1970s, that non-economic aspects of foreign policies could be safely studied in total separation from economic relations. Indeed, the discipline of IR has been explicitly or implicitly seen as being predominantly concerned with international *politics* thereby privileging the political over the economic and categorically separating the two. In this respect, numerous attempts to reconstruct "philosophical roots" of the discipline, its "intellectual tradition," traced directly to classical Western political theory, have played an important role.

Now, it must be acknowledged here that the exclusion of economic issues began to be challenged in the 1970s when the processes of economic interdependence and the importance of economic issues in foreign policies of states became impossible to deny. These attempts to bring the economy "back in" have been particularly characteristic of the field of IPE. However, in IPE the orthodoxy has taken the form of heterodoxy in a slightly different way – via the presentation of antagonism and debate as a so-called "transatlantic divide" (Cohen 2007, 2008a, 2008b, 2009; Higgott and Watson 2008; Ravenhill 2008), which is accepted and reproduced even by those scholars who develop a more critical approach to IPE (e.g. Palan 2009). The asserted divide is between "positivism and empiricism" that supposedly characterizes IPE in the United States, and the IPE with a "normative bent" that supposedly marks the field in the United Kingdom (Cohen 2009:139). More importantly, on both sides of the Atlantic the incorporation of the economic took place leaving intact the existing dichotomies and particularly maintaining the treatment of the state as a kind of a black box with no social content. The dichotomy politics/economics is treated in the same way – politics and economics are two separate fields, which do not constitute one social totality, but occasionally *interact*. The relationship is not seen as one of mutually reinforcing causality, as organic, but external and random, that is, sometimes it may exist and may be observed, at other times it does not exist because it cannot be observed.

In addition to this, the field of IPE is increasingly developing its own tradition which is rooted in economics and mirrors the neo-classical orthodoxy that has been established in this discipline. As Wade observes, "to the extent that 'normal science' in international political economy (IPE) has come to be rooted in the liberal paradigm, in statistical techniques, and in mathematical models, it has come to resemble neoclassical economics" (Wade 2009:106). This conception of science biases conclusions towards the following: the virtues and prevalence of self-adjusting systems; an anodyne notion of power; and a functionalist kind of explanation. This model biases conclusions away from: inequalities of income and wealth (which, as we will argue below, is an important element in explaining the failure to understand the financial crisis); and forms of structural power (*ibid*.:117).

This is not to say that all the work done in IR in general, and in IPE in particular, is homogeneous and necessarily belongs to the orthodoxy. Of course there are critical scholars who either openly challenge the orthodoxy exposing its disciplining devices, or seek to develop alternative methodological and conceptual tools. However, what we wish to highlight here is that we can only understand the lack of comprehensive engagement with the financial crisis by exposing the limits and constraints that the orthodoxy has imposed upon the discipline, which has in turn structured the overwhelming majority of works in IR and IPE and marginalized many of these critical voices. Marked by the dichotomies examined above, particularly by the categorical separation of the domestic from the international and of politics from economics, by relying exclusively on empirical observation and increasingly on mathematical models at the expense of structures (which cannot be observed) and the issues of structural power, as well as inequality and social injustice, the orthodoxy severely limits the possibilities for a comprehensive engagement with the crisis. As a result, the crisis is either not dealt with at all, or is studied in a superficial and reductionist manner, reproducing the existing dichotomies and providing compartmentalized and segmented analyses. To expose these shortcomings in the engagement of IR with the financial crisis is the objective of the next section.

II. IR and the Crisis

In this section we examine the engagement of IR with the crisis. We begin with a brief presentation of our methodology and the quantitative results of our survey of IR journals. The key result that is highlighted is the silence of IR with respect to the crisis attested by the tiny number of publications seeking to engage with it. We then examine those few attempts that *have* been made by IR scholars to analyse the crisis and/or its consequences.

In order to evaluate the extent of IR's engagement with the financial crisis we have focused on the academic journals that are recognized as central within the discipline in terms of their impact. Though journals do not represent the entirety of International Relations discourse, they are a strong indicator of its subject and tone. Since the late 1960s, the focus of academic expression has been shifting in such a way that "survival in academia depends on publications in refereed journals" (Frey 2003:205) because the "marketplace for ideas on politics, society, values, literature and aesthetics is not the university. Rather, the sifting and evaluation of ideas takes place in the intellectual journals and in the circles of elite intellectuals – academic and otherwise – which surround them" (Hover and Kadushin 1972:38). Importantly, IR scholars have by now had ample time to contribute to this marketplace. Though the peer review process varies considerably according to the efficiency and reputation of the journal, the time between initial submission and final acceptance typically takes between three and six months (Ellison 2001). Given that the financial crisis started in 2008, claims about the lengthy peer review process obstructing debate are an insufficient explanation for the low number of IR articles analysing the crisis.

We have used the Thomson Reuters' Journal Citations Reports, taking the journals that were ranked as the twenty best in the discipline of International Relations each year in the period 2008-2011.[3]

3. Thomson Reuters evaluates these in their impact factor ranking which is a measure of "the frequency with which the 'average article' in a journal has been cited in a particular year or period." They therefore calculate a journal's impact by "dividing the number of current year citations to the source items published in that journal during the previous two years." (Thomson Reuters 2011) Thomson Reuters has been collecting this information since 1975 (formerly known as the Institute for Scientific Information) and has become a source used by librarians, researchers, authors and editors alike. We therefore chose the citation method of evaluating journals, rather than the perception or readership methods. This was chosen in part because we were

Searches were then carried out to find out how many articles in these twenty journals dealt with the financial crisis in this period. The results of this overview of IR engagement with the financial crisis are shown in Table 1 in the Appendix.

The most striking finding is the paucity of articles on the financial crisis in these top twenty journals.[4] It is astonishing to note, for example, that such key journals as *International Affairs*, *International Studies Quarterly*, *Review of International Studies* and *Security Dialogue* did not contain a single article between 2008 and 2011 offering an analysis of the financial crisis or its consequences. They continued to cover traditional questions – diplomacy, terrorism, intervention, peace-keeping, conflict resolution, etc. – as if the crisis was simply not happening. As Table 1 demonstrates, among the top twenty journals that Thompson Reuters categorises as IR, some clearly stand out, most notably *The Journal of Common Market Studies* and *The World Economy*. To be consistent with our methodology, in our qualitative research we have examined the articles published in these journals. However, it may be noted that these two publications do not identify themselves as explicitly IR. Thus, *The World Economy* presents its expertise as lying "in trade policy and other open economy issues embracing international trade and the environment, international finance, and trade and development," while *The Journal of Common Market Studies* describes itself as publishing "articles on the latest European Integration issues."

When we realized the extent to which IR has failed to engage with the crisis, we decided to enlarge our sample[5] and came across a number of special issues on the financial crisis in journals that have a smaller impact factor according to Thompson and Reuters, but which nevertheless are well-known and respected IR publications – *Global Governance*, *Journal of International Affairs*, *British Journal of Politics and International Relations*, *International Political Sociology* and *New Political Economy*. We also came across a special issue of *Critical Review* which does not identify itself as IR but rather as a Political Theory journal. We still decided to include it in our qualitative analysis as well because its objective, according to the editor Jeffrey Friedman, is to analyse "how political decision makers can know what they need to know."[6]

Thus, in terms of quantitative indicators of IR's engagement with the crisis, we may conclude that those IR journals that are highly rated in terms of their impact factor have largely remained silent on the crisis. It would not be an overstatement to say that for them the crisis has no significance for their academic discipline. Fortunately for IR, a number of academics *have* recognized the importance of the issue and have taken the initiative to dedicate special issues of different, lower-rated journals to the crisis. However, unfortunately for IR, as we will see below, these attempts, with very few exceptions, have provided shallow analyses reproducing the dichotomies examined above and developing arguments that are typical of orthodox IR – mostly state-centric, confined to foreign policies of states and failing to understand the origins of the crisis as well as its implications for the state and for the international system.

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not concerned *a priori* with the quality of the articles (citations can indeed mushroom, precisely because the quality is highly questionable and is therefore under attack from other authors and journals in the field) but were instead trying to measure solely the impact of these journals. The objective was to measure what is an essentially subjective notion (influence) using more objective indicators (number of citations). The number of journals that Thomson Reuters considers in its classification changes each year. In 2009, 59 academic journals were identified as being in the discipline of International Relations, which had risen from 55 titles in 2008 and 51 titles in 2007. This growth further demonstrates not just the continued increase in the popularity of the discipline but also the continued growth of the importance of journals as an arena for academic debate.

4. Needless to say that academic work is not confined to journals and includes books, as well as conference papers and presentations, round tables, etc. The crisis has been dealt with in a number of books and edited volumes (e.g. Rajan 2010; Chinn and Frieden2011; Eichengreen 2011), but often by authors who do not identify themselves, and are not seen by IR scholars, as being part of the discipline of International Relations. Moreover, we make no claim to have read the entirety of IR literature on the financial crisis in the period from 2008 to present, but as explained above, believe that journals make a sound foundation for analysis.

5. We used the Columbia International Affairs Online (CIAO) search engine, which is one of the most comprehensive sources for theory and research in international affairs and includes not only journals but also working papers from university research institutes, occasional papers series from NGOs, foundation-funded research projects, proceedings from conferences, books, and policy briefs.

6. Jeffrey Friedman stated this in an e-mail exchange with us. We thank him for his reply.

Those few articles that appeared in Thompson Reuter's top twenty journals, as well as those that were published in special issues of other journals and the ones that we came across elsewhere, can all be divided into three broad categories as shown in Table 2 of the appendix: (1) the discussion of the consequences of the crisis for policy-making; (2) the discussion of the consequences of the crisis for inter-state relations; and (3) the discussion of the origins of the crisis. The majority of the articles fall within the first category, followed by those examining the implications for inter-state relations and just a few articles belong to the third category for the reasons aforesaid – the orthodoxy within the discipline simply lacks the conceptual tools to attempt to explain the financial crisis.

II.1. The Consequences of the Crisis for Policy-Making

The articles that we gather in this section seek to analyse the implications of the crisis for policy-making at a national and global level. The issues that are typically examined include the various aspects of the "comeback" of the state in the context of anti-crisis measures, the discussion of international initiatives and measures that ought to be taken, and more generally of the lessons that decision-makers ought to learn from the crisis. The crisis itself is taken for granted, as a starting point, with little attempt to understand the causes of its outbreak. The authors do not engage with the crisis *per se*, and the discussion remains at the level of problem-solving and technical-instrumental guidelines, which implicitly or explicitly reproduce the dichotomies examined above. This is not to say that all analyses of the crisis must necessarily attempt to explain the origins of the crisis; the discussion of the consequences of the crisis is of course a very important issue, particularly for the existence of the state and of the entire international system. However, these crucial implications of the crisis remain lost in technical-instrumental analyses which have in common an implicit belief: better national and international policy-making will be sufficient to limit and remedy the consequences of the crisis. More importantly, such analyses tend to misunderstand the implications of rescue policies undertaken by the state for the future of the state: they are rather unanimous in their belief that "the state is back" and that we are entering the period of state capitalism. The state, as will be argued below, has never been away; the contradictions that it has to constantly resolve are now so powerful that the state must try to deal with them in a different way, but as demonstrated by the unsustainable debt levels of major economies, the comeback of the state and the era of state capitalism is an illusion. Let us look at some most typical examples of such approaches, which characterise in particular the works published in *Foreign Affairs* and in the special issue of the *Journal of International Affairs*.

The belief that we are entering a period of state capitalism is shared, for example, by Ian Bremmer (2009), Roger Altman (2009) and Brad Setser (2008). It is argued that in place of free-market capitalism "has come state capitalism, a system in which the state functions as the leading economic actor and uses markets primarily for political gain" (Bremmer 2009:41), and that much of the world is "heading into a period in which the role of the state will be larger and that of the private sector will be smaller" (Altman 2009:2-3). The state is thereby treated in a typically orthodox manner, as an entity whose relationship with the economy is occasional, and which may one day "decide" to start managing the economy, and once such a decision is taken, the era of state-managed capitalism is certain. Such an approach to the state/economy relation is most explicit in the paper by Burrows and Harris who argue that the financial crisis has "heightened the role of the state" (Burrows and Harris 2009:31) and characteristically assert that one of the consequences of the crisis is the "collapsing of firewalls between state and markets" (*ibid*.). One can hardly think of a more apparent misconception of the nature of the state and of the roles that it fulfils. For some authors, for instance Drezner (2008) and Lavelle (2008), the "comeback" of the state, is testified by the growing role of sovereign wealth funds (SWFs). These entities, which, Drezner argues, "sit at the intersection of high finance and high politics" (Drezner 2008:115) are thereby rendered intelligible in a characteristic IR manner by associating them with high politics – a traditional IR concern. However, the emergence of these funds, and particularly the growing power of SWFs of emerging economies is taken for granted – it is treated as a simple state policy tool, and because the influence of SWFs is growing, it is deduced that the power of the state is growing as well. No attempt is made to explain the increasing importance of SWFs, which would require an examination of the new global division of labour, as we will argue below, which in turn necessitates the overcoming of the domestic/international and politics/economies dichotomies. And the implications of the fact that the state, via SWFs, becomes a player in financial markets – meaning that there is always a possibility that the funds that these SWFs manage can decrease or be lost in a financial gamble – are left undiscussed (for more on risky and audacious investments made by SWFs see Datz 2008).

Another policy-oriented concern that is raised is the future role of different international institutions. Thus, Mattoo and Subramanian (2009) argue that in the aftermath of the crisis a new round of Bretton Woods talks is needed to develop a more ambitious agenda than has been proposed by Doha which has to involve a broader set of institutions than just the World Trade Organization (WTO). Nicholas Bayne (2008) argues that the crisis has demonstrated the need for central banks and state governments to work more closely together, and this in turn requires "international institutions that engage all international players, which should give a new lease of life to the IMF" (Bayne 2008:3; for similar examples see Mattoo and Subramanian 2009; Mosley 2009; Beeson and Bell 2009; Porter 2009; and Rosecrance 2010).

Finally, another issue for policy-makers that has been identified by a number of analysts is the future of financial regulation at national, regional and global levels. Thus, Iain Begg (2009) examines the future of financial regulation at the EU level. He argues, it is time "to acknowledge that financial integration is here to stay" and that, "it is time to assert the need for a *principle of supervisory equivalence* that would involve delegation upwards to the EU level of substantial powers" (Begg 2009:1125; for similar arguments see Jones 2009; Pauly 2009; Moschella 2010; for more sceptical arguments about the future of regional or global financial regulation see Best 2010 and Thompson 2010).

In all these examples, we see similar shortcomings to those identified earlier with respect to this category. The state-centrism and dichotomies are reproduced, and the engagement with the crisis remains at the technical-instrumental level. The seriousness of the crisis for the state and the international system, the contradictions and developments of which it is a manifestation, and the reasons for the failure of rescue policies to achieve expected results are all left undiscussed. Let us now look at the second group of articles, namely the ones that focus on the consequences of the crisis for inter-state relations.

II.2. The Consequences of the Crisis for Inter-State Relations

The analysis of the crisis in terms of implications for inter-state relations is something to be expected from IR scholars. However, as noted earlier, very few such attempts have been made so far. We will examine them in this section. We will see that the analyses are carried out within the limits set by the orthodoxy – their state-centric and reductionist views – and reproduce the above dichotomies, and particularly those between domestic/international and politics/economics.

In his article, Altman (2008) also observes that one of the consequences of the crisis "is a major geopolitical setback for the United States and Europe" who will have "neither the resources nor the economic credibility to play the role in global affairs that they otherwise would have played" (Altman 2008*:*2). At the same time, the crisis gives China the opportunity to solidify its strategic advantages as the United States and Europe struggle to recover: "Beijing will be in a position to assist other nations financially and make key investments in, for example, natural resources at a time when the West cannot. […] And it is likely that […] the new administration of President Obama will see more clearly than its predecessor that the U.S.-Chinese relationship is becoming the United States, most important bilateral relationship" (*ibid.*:3).

Joseph Nye, in an orthodox manner, examines the issue of power, particularly with reference to the United States and China. He sets out to do away with suggestions that the US power has declined, while the Chinese power has increased. To support his argument Nye explains that "the World Economic Forum still rates the US economy as the world's second most competitive (after Switzerland) because of its labor market flexibility, higher education, political stability, and openness to innovation, while China is ranked number 29." Then he naturally goes on to introduce a military dimension and his notion of "soft power": "while few expect China to surpass the United States in military power in the next two decades, [...] a number of observers see China's soft power increasing [...] after the financial crisis" (*ibid*.). Nye then refutes this assertion, in a manner that reproduces all the possible dichotomies: "But to what extent are Venezuelans and Zimbabweans attracted to authoritarian government, or do they admire the growth of China's gross domestic product (GDP) over three decades, or are they just induced by the prospect of access to a large and growing market? Moreover, even if the authoritarian growth model produces soft power for China in authoritarian countries, it does not produce attraction in democratic countries" (*ibid.*:145). Finally, Nye tackles the fact that China has been the key US creditor. This, according to him, has no implications for the US power whatsoever: "China's increased financial power may have increased its ability to resist U.S. entreaties, but despite dire predictions about the power of Chinese creditors, it has had little effect on its ability to compel the United States to change its policies" (*ibid.*:148).

A very similar argument is made by Gregory Chin and Eric Helleiner (2008), who also examine the rise of China as a creditor. Like Nye, they conclude that the Chinese economic power, although giving China more influence in world affairs, is insufficient to challenge the US "structural power" in the international financial and monetary systems. Such an assertion may be surprising after what happened on Wall Street, but this is consistent with typical state-centric analyses – Wall Street is located on the US territory, and the Wall Street banks (whose shares are owned by investors from all over the world) are considered to provide the United States with structural power. Burrows and Harris (2009) arrive at similar conclusions concerning US supremacy, which is unlikely, according to them, to be challenged by China or other emerging countries (*ibid.*:33-34). A different view is advanced by an economic historian Barry Eichengreen who believes that the world is shifting toward a more multipolar world because of the weakened position of the US dollar: "The growing importance of emerging markets has sharply reduced the United States' economic dominance, weakening the logic for why the dollar should constitute the largest part of central-bank reserves and be used to settle trade and financial transactions" (Eichengreen 2009:53). This view is shared by Ian Bremmer and Nouriel Roubini (2011) who believe that after the crisis the United States is no longer the leader of the global economy, and G-20 will not only fail to replace it, but will become an arena of conflict.

Inter-state relations, or what they refer to as "geopolitics," are also a focus of Anastasia Nesvetailova and Ronen Palan (2008). The two authors suggest that in the "foreseeable future, the United States will be unable to produce another meltdown of such magnitude. The current credit crisis is, in one sense, the last big throe of a declining U.S. hegemony" (*ibid.*:167). Such arguments do bring the economy "back in" but wrongly see the crisis as solely US-made: it did start in the United States, but it represents the crisis of the Organisation for Economic Cooperation and Development (OECD) countries more generally as a result of the new global division of labour, as we will argue below.

What is common to all these analyses is their superficial nature which necessarily results from reproducing the dichotomies and treating the state from an external point of view only. Similarly to the articles in the previous category, they are incapable of appreciating the gravity of the crisis for the state, particularly in the Western world. As Nye puts it, this crisis is a "cyclical event" (2010:143), for his reductionist state-centric analysis of its exclusively political aspects renders him and other authors discussed in this section incapable of understanding the structural causes and implications of the crisis. All these analyses can offer is a set of instrumental policy guidelines which are not based on any comprehensive analyses of the real origins of the crisis.

II.3. The Origins of the Crisis

Most of the available explanations that we have come across in IR and IPE journals adopt, either in part or a wholesale subscription, a view that is common in Economics: the crisis was caused by the practice of securitization of mortgages. The development of this practice resulted in the adoption by financial intermediaries of the originate-to-distribute model of credit, which replaced the traditional originate-to-hold model, and which no longer required credit-granting institutions to carefully screen the creditworthiness of the customer, for the loans made would be immediately packaged and sold to third-party investors who would bear the risk of possible default. Some analysts often add that financial intermediaries could lend funds to subprime borrowers in the United States at low rates because of global imbalances: emerging economies that had accumulated foreign reserves were willing to lend these funds to the United States, which took the form of massive purchase of US Treasury bills. While these narratives identify important mechanisms responsible for the crisis, they do not provide insights into the deeper, underlying causes such as the developing new global division of labour and the resulting inequality growth in the United States and elsewhere in developed countries, the context in which the only possible way to maintain the standards of living and consumer demand was cheap credit. We will discuss this in the last section below. For now, it is important to note that there are articles which constitute notable exceptions to the dominant account which will also be examined here.

Thus, Carmassi, Gros and Micossi (2009) identify both financial innovation and the originate-to-distribute model as central causes of the crisis. As a result of the process of securitization, "in the United States, ballooning mortgage loans to riskier borrowers provided the basis for an ever-larger inverted pyramid of structured products. A parallel development was the rapid diffusion of an intermediation model, 'originate-to-distribute,' where loans were immediately resold to other investors and monitoring of underlying credit quality was increasingly overlooked under the collective delusion that risks had been transferred elsewhere or hedged" (Carmassi, Gros and Micossi 2009:980). This explanation of the crisis is shared by Saskia Sassen, who also blames securitization for the outbreak of the crisis (Sassen 2008) and a range of other scholars who make almost identical arguments that need not be restated here (e.g. Acharya and Richardson 2009; Bhidé 2009; Hardie and Howarth 2009; Quaglia, Eastwood and Holmes 2009). By contrast, the article by Taleb and Blyth offers a promising explanation of the financial crisis by claiming that it is part of a complex system and warning against "the artificial suppression of volatility—the ups and downs of life—in the name of stability" (Taleb and Blyth 2011). The article, however, offers little else to explain the origins of the crisis, says nothing about how it spread, and remains a disappointing partial analysis despite the authors' ironic insistence that "the complex domain is the realm of the social world."

There are several publications which appeared in the special issue of the *British Journal of Politics and International Relations* which attempted to offer a more comprehensive understanding of the causes of the crisis (e.g. Crouch 2009; Finlayson 2009; Watson 2009). In this respect, Colin Crouch's article clearly stands out in terms of depth of analysis. Crouch develops an explanation of the crisis which relates it to the contradictions of capitalism that we mentioned earlier and different policy regimes that have, in the post-war period, attempted to resolve them for a certain period of time. The current financial crisis is a manifestation of the limits of the regime of "privatized Keynesianism": "There have now been two successive policy regimes since the Second World War that have temporarily succeeded in reconciling the uncertainties and instabilities of a capitalist economy with democracy's need for stability for people's lives and capitalism's own need for confident mass consumers. The first of these was the system of public demand management generally known as Keynesianism. The second was [...] a system of markets alongside extensive housing and other debt among low- and medium-income people linked to unregulated derivatives markets. It was a form of privatized Keynesianism. This combination reconciled capitalism's problem, but in a way that eventually proved unsustainable" (Crouch 2009:382).

In the next section we will build upon these insights and attempt to draw the contours of what in our view an alternative approach ought to be like. We do not claim to provide either an exhaustive explanation of the crisis or a new theoretical framework; we simply stress the need to overcome the dichotomies that have been dominant in IR and outline what this would mean with respect to the analysis of the crisis. The objective is to show that such an approach offers a greater potential for understanding and explaining the crisis.

III. Outline of an Alternative Analysis

The central objective of this article was to measure the extent of IR's engagement, and subsequently, to highlight and explain the discipline's failure to engage in any comprehensive way with the latest financial crisis. Although providing an alternative analysis of the crisis is beyond the scope of this paper, we feel compelled to sketch out what in our view an adequate analysis of the origins of the crisis would have to look like. In general terms, it would have to be holistic, that is, it would need to overcome the dichotomies imposed by the orthodoxy and tradition, particularly such dichotomies as domestic/international, politics/economics, public/private. Central in overcoming these dichotomies is the abandonment of the treatment of the state as a unitary actor totally emptied of any social content and dynamics.

III.1. Privatized Keynesianism

Let us begin by reiterating the point made in the preceding section that in the capitalist structure of production, the state is absolutely necessary to exercise comprehensive control over centrifugal effects resulting from antagonistic interests of various social forces. Of particular relevance to our analysis is the fact that in capitalism the production of goods and services takes place for sale on the market – they are produced not for their use-value, that is, not to satisfy particular needs, but for their exchange-value, that is, to make profit – which means that there must exist consumers able to purchase them. Here, however, resides one of the key dilemmas of this structure of production and distribution mentioned earlier: wage labourers are, on the one hand, part of production costs which capital structurally seeks to minimize, and on the other they are also consumers that capital needs to sell the products and services to. The modern state precisely emerged to guarantee the resolution of this dilemma (that is to say, the state there has never been any "firewall" between the state and the economy, as the authors examined above believe, but the two have always existed in an organic relationship).

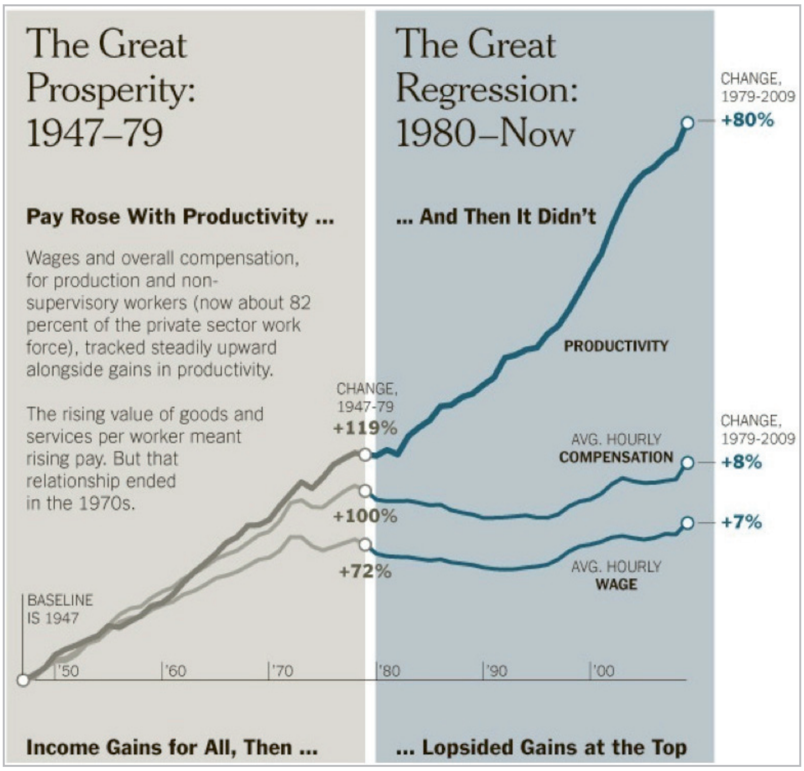
To continue with the argument of Colin Crouch, in the post-war period the policies of Keynesian demand management adopted in the Scandinavian countries, the United Kingdom, France, Austria and, to a lesser extent, the United States, temporarily reconciled the needs of capital and labour. In times of recession and low confidence, governments would go into debt in order to stimulate the economy with their own spending. In times of inflation, when demand was excessive, they would reduce their spending, pay off their debts and reduce aggregate demand. It may be added that this regime of regulation is often referred to as Fordism (e.g. Jessop 2001; Boyer 2004; Manokha 2008) which was broadly based on four key foundations: (1) A capital-labour compromise which resulted in sharing productivity gains and rapid rises of wages; (2) Keynesian fiscal and monetary policies whose central objective was to maintain a constant progression of demand; (3) a welfare state which established social protection systems based on what may be described as solidarity between social classes on the one hand, and generations, on the other; and (4) state-regulated financial systems which ensured the accumulation of industrial capital through credit provided with low interest rates and controlled by state authorities (Boyer 2004). As a regime of accumulation Fordism involved synchronization of mass production and mass consumption and a cycle of growth which was comprised of the following elements: rising productivity based on economies of scale in mass production; rising incomes linked to productivity; increased mass demand due to rising wages; increased profits based on full utilization of capacity; increased investment in improved mass production equipment and techniques; and a further rise in productivity. The international structures of trade and finance were based on internationalization of this “negotiated compromise between the factions of capital and labour in a range of capitalist states” (Gill 2003:87) and there emerged a form of a consensus among governments in the United States, Western Europe and Japan concerning the development of a capitalist world economy, marked by significant state intervention into the functioning of the market. States were allowed to pursue inflationary economic stabilization and social welfare policies and this consensus was institutionalized in the framework of the International Monetary Fund (IMF), the World Bank and the General Agreement on Tariffs and Trade (GATT). As Crouch argues, “the Keynesian model did represent a temporary coincidence between the interests of the industrial working class in the global north-west and a general interest of the politico-economic system. [It] was a response to the demands [of labour] that reconciled them with a capitalist system of production” (Crouch 2009:388).

What needs to be emphasized here is that the compatibility of interests between capital and labour is only possible when firms make sufficient profits to be able to share them with their employees. When, in the late 1960s and the early 1970s the productivity of capital and the rates of profit made by companies started to decline, the Fordist economic and social equilibrium began to fall apart (see Mazier, Basle and Vidal 1999).

The decline of productivity gains and significant falls in profits without a corresponding decline in wages and social benefits could not be sustained. The interests of capital and labour were no longer compatible as the Fordist social protection systems and labour market regulations could no longer be turned to a productive advantage. Faced with the crisis, the Reagan government in the United States and the Thatcher government in the United Kingdom, soon followed by many other developed countries, initiated fundamental economic reforms at the core of which lay two principal objectives: the containment of inflation and the reduction of public debt. To cope with the inflation, amplified by two oil price shocks, the Federal Reserve doubled the interest rates in 1979, an event described by Duménil and Levy as “the coup of 1979” (2004).

An illustration of the difference between the two periods is provided by the figure below which demonstrates how increases in productivity and real wages went together in the period of Fordism and how they departed in the post-1979 period.

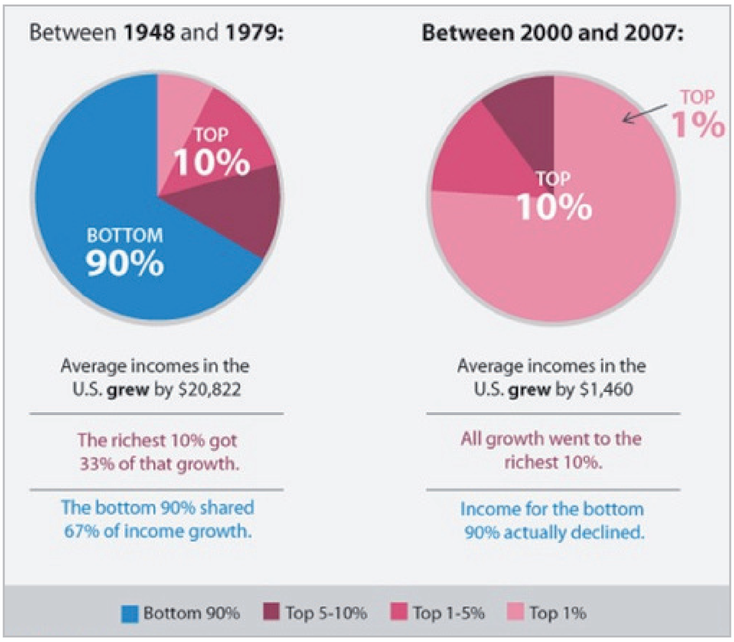
Figure 1: The Great Prosperity vs. The Great Recession



Source: Reich (2011)

Looking at this figure one might say that although the disconnect between productivity and wages is indeed impressive, the real wage has still gone up. However, it does not tell the whole story, as it only depicts average wage growth. The next figure illustrates the extent of income inequality and the decline in income for large portions of US wage-earners.

Figure 2: Income Growth and Distribution in the US



Source: EPI (2011)

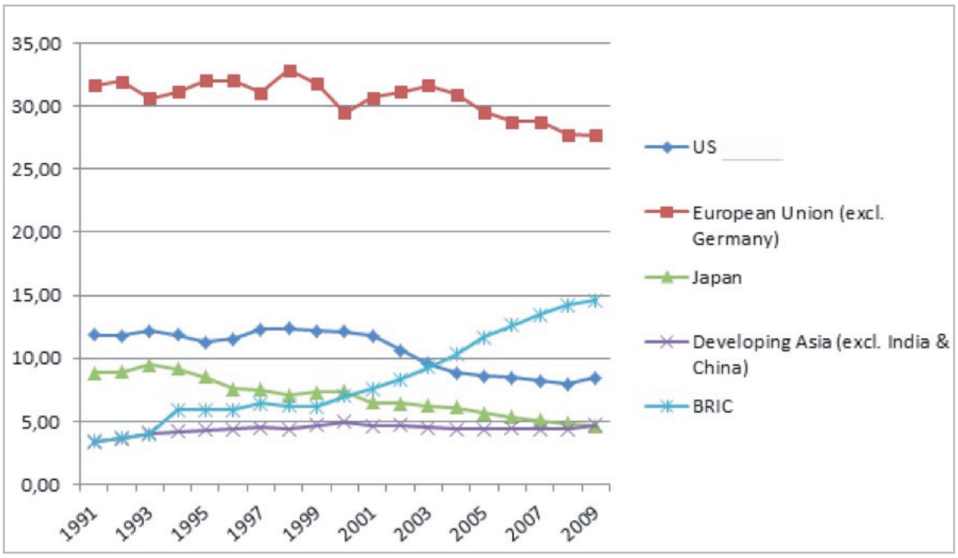
Thus, while average annual incomes over the seven-year period (2000-2007) grew by $1,460, that growth was extremely lopsided. Average incomes for the bottom 90% of households actually declined.

These developments have been reinforced by what we may call a new international division of labour – the growth in share of world exports of manufactured goods produced in emerging economies and the corresponding decline of such exports in OECD countries more generally (except Germany) and in the United States in particular.

III.2. The New International Pattern of Production and Exchange and its Consequences for the US Economy

Thus, in the past few decades, emerging economies have substantially increased their share in world trade in final manufactured goods, intermediate inputs and services, while the share of OECD countries in these sectors has declined, as illustrated by Figure 3 which plots the shares of merchandise exports of the key economies. Overall, if in 1998 the emerging economies' share of world trade amounted to 27%, in 2008 it was already 45%, that is, it almost doubled in 10 years (Artus and Virard 2009:18).

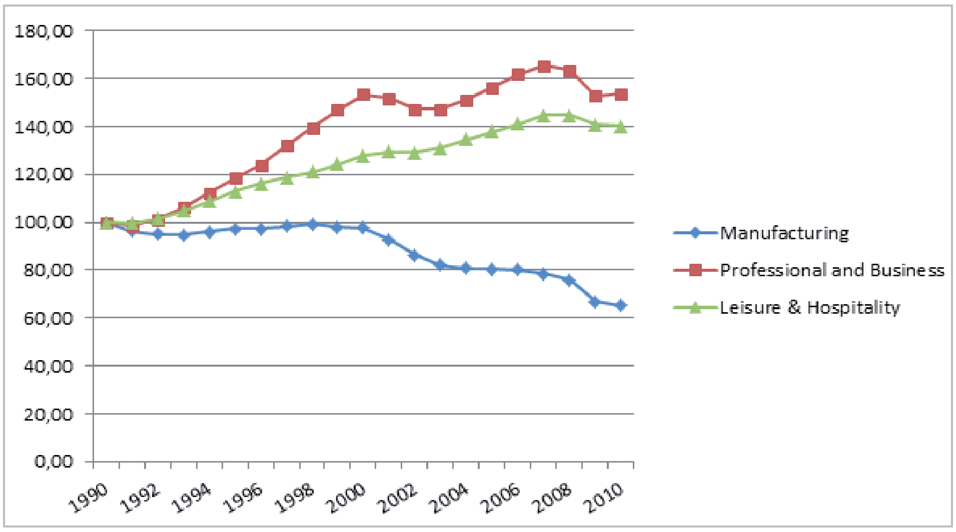
Figure 3: Share of World Merchandise Exports (%)



Source: Data taken from World Bank

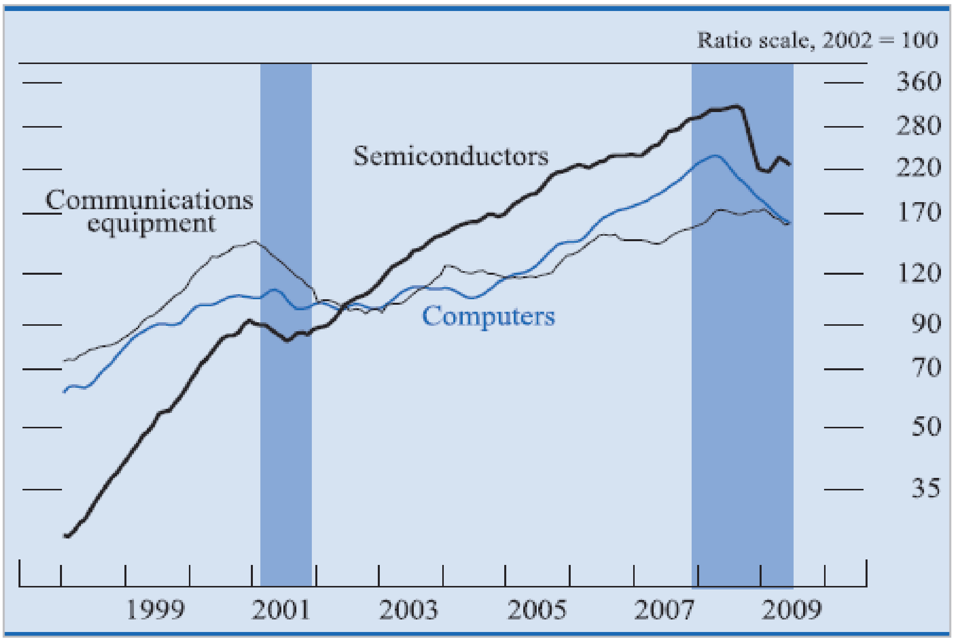
The US economy, particularly in the 1990s and 2000s has been increasingly characterized by two features: the decline in the importance of traditional industrial production, and the growth of the hi-tech and services sector, as illustrated by Figure 4 (which shows a decline in industrial employment and a rise in employment in the services sector), and Figure 5 (which demonstrates the growth of hi-tech production).

Figure 4: US Employment: Manufacturing and Services (1990=100)



Source: US Bureau of Labour Statistics

Figure 5: United States High-Technology Production. Selected High-Technology Industries (2002=100)



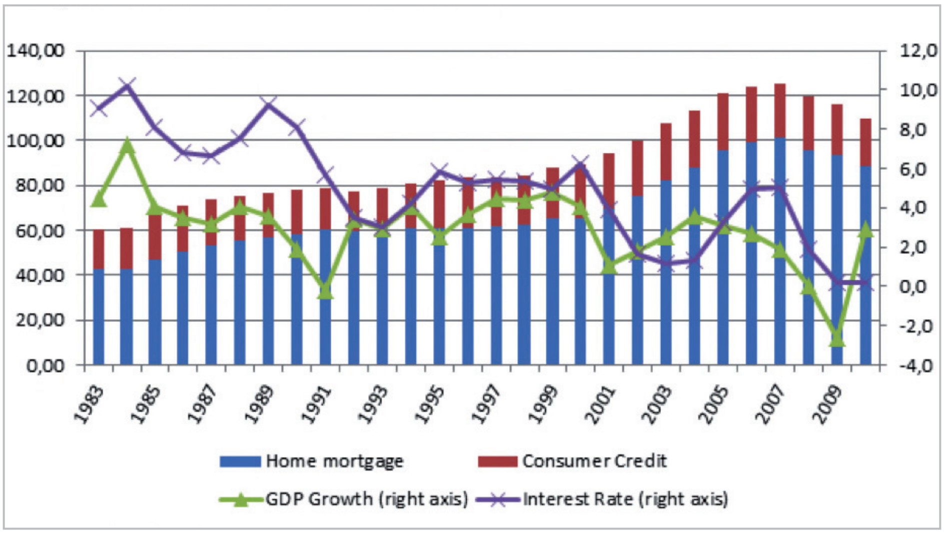
Source: US Federal Reserve (2009:130)

Since 2001, the United States has lost approximately 42,400 factories. Manufacturing employment dropped to 11.7 million in October 2009, a loss of 5.5 million (or 32%) of all manufacturing jobs since October 2000. If in 1959, manufacturing represented 28% of US economic output, in 2008, it represented only 11.5%. At the same time, from 1999 to 2008, employment at the foreign affiliates of US parent companies increased an astounding 30% to 10.1 million (McCormack 2009).

It must be acknowledged that in other sectors, particularly in hi-tech production and services, employment increased significantly and at first glance the US economy projected the image of "creative destruction." Thus, in services with high value-added, the rate of employment went up 15% in the period 1998-2008; in the same period, the number of jobs in the hi-tech sector was multiplied by 3.5 (Artus and Virard 2009:18-20). However, these increases were not able to compensate for the losses in income and purchasing power occasioned by the decline in traditional manufacture for the majority of US households. First, in the services sector – in construction, distribution, leisure, transport, etc. – productivity gains are relatively low, and so is the progression of wages. Second, the hi-tech sector, whose development was heralded (especially since the Clinton era) as the key element in the "new" US economy, employs only about 4-5% of the workforce.

It is in this context of declining wages that the stimulation of demand and economic growth took form of what Crouch refers to as "Privatized Keynesianism." The regulation of the economy is carried out via interest rates which are reduced every time there is a slowdown which encourages households to borrow and go further into debt. This is what the figure below illustrates: every decline in the rate of GDP growth is paralleled by a decline in the interest rate. What we can also observed is that as a result of this policy, the indebtedness of households steadily increased to reach 125.6% of disposable income in 2007.

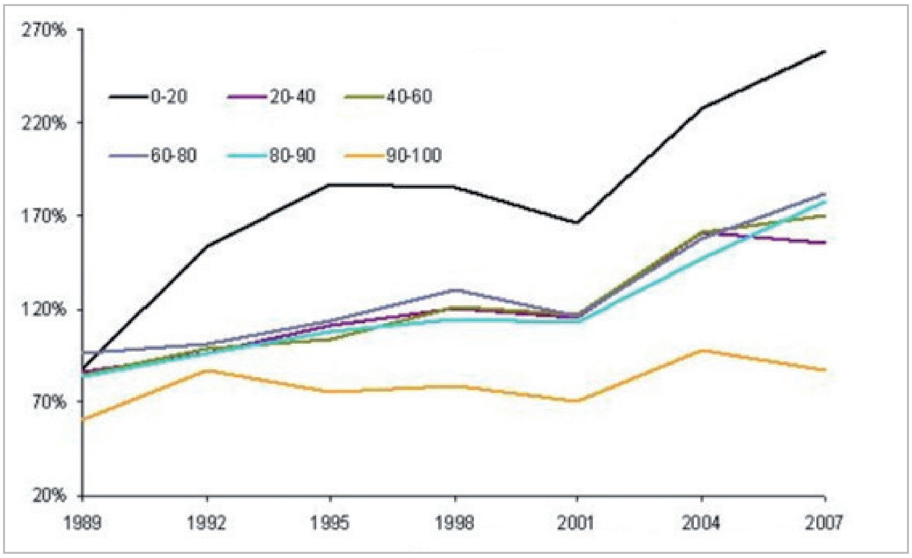
Figure 6: Total Household Debt as a % of Personal Disposable Income and GDP, Growth and Interest Rate in the US



Source: US Federal Reserve

It is important to mention that the poorest 20% were the most indebted among the US households, although the indebtedness of households in other quintiles, except the richest 20%, also reached very high levels.

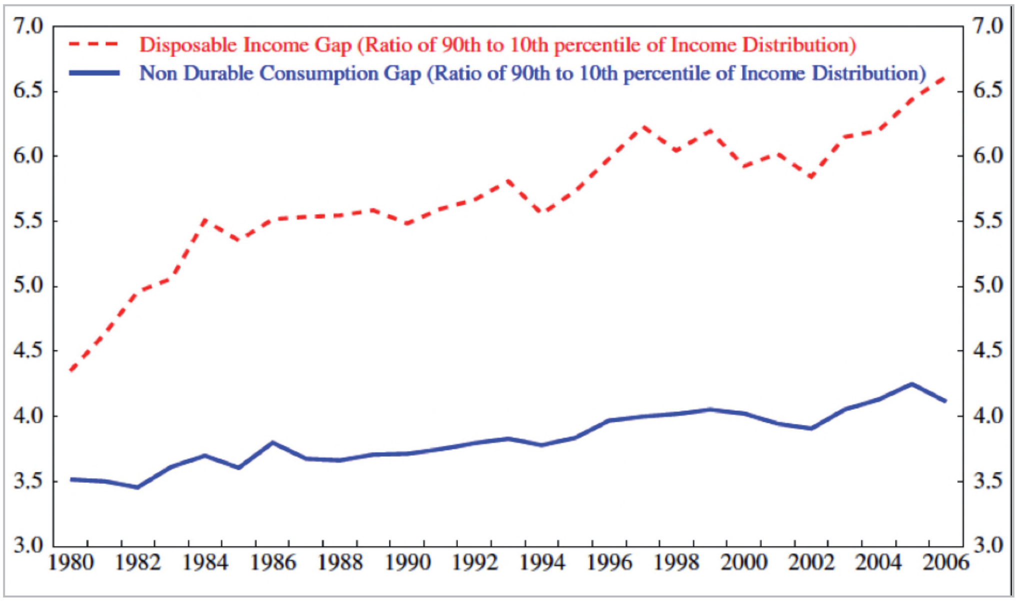
Figure 7: Debt to Income Ratio for Households by Income Distribution (Quintile/decile)



Source: Wilmot 2009

As a result, the growing inequality of income has not been accompanied by a proportionate consumption inequality as households from the 90th to 10th percentile of income distribution have been able to maintain their consumption patterns despite the income decline, as the following chart from Michael Kumhof and Romain Rancière (2010) illustrates.

Figure 8: Income Inequality and Consumption Inequality in the United States



Source: Kumhof and Rancière (2010:28)

However, what needs to be stressed here is that in the context of the restructuring of the US economy, with all the consequences for employment discussed above, and considering the loss of export market shares by the US industries, the boost given to the economy via low interest rates and high household indebtedness does not resolve the problem but only postpones the negative consequences with rates hitting lower and lower levels with each new recession. Thus, when GDP growth is back, the Fed increases the rate of interest, but this does not lead to the decrease in the indebtedness of households – indeed, why would they spend less and save more when the economic situation is improving? And how to make them postpone their consumption and investment decisions until the economic situation worsens (and during which such decisions are crucial to boost the economy)? To illustrate this, in 1990 the ratio between savings and debt of an average American family was 1 to 11 in 1990, 1 to 38 in 2000 and 1 to 300 in 2008 with only $392 of savings against $117,951 of debt (Artus and Virard 2009:38-39). In other words, the adjustment that is needed between savings and indebtedness of households, in periods when interest rates go up, does not take place.

This heavy indebtedness was however possible due to the willingness of states with big trade surpluses to finance the US debt and to do so at low interest rates. This factor is what is often referred to as "global imbalances."

III.3. Global Imbalances

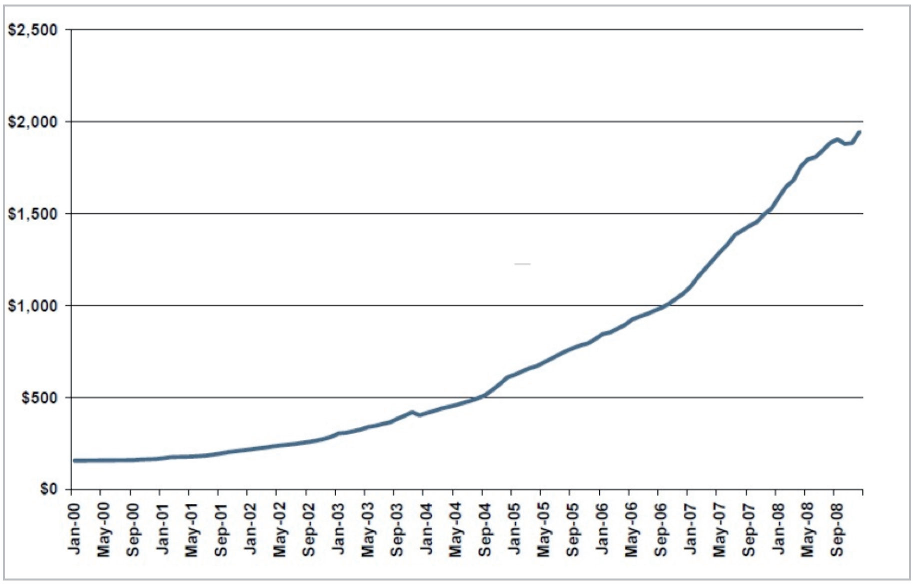
It is important to observe that the development of global imbalances is often invoked in mainstream Economics as one of the causes of the crisis. The story commonly told goes as follows: after the 1998 Asian crisis, the governments of Asian countries *decided* (once again, a typical reductionist statement) that enough was enough and that buffers to prevent future currency crises had to be accumulated; this is how the imbalances emerged. Although partially true, what is missing from this account is what must have been the case for such a decision to be possible in the first place. The answer to this question lies in the real economy: the new international division of labour with Asian countries acquiring increasingly larger shares of world markets. This in turn, is to a large extent explained by what Meszaros (1995) calls the "differential rate of exploitation" – the incomparably lower labour cost in these countries with respect to those in the United States and in the Western world more generally. Aglietta and Berrebi (2007), for example, observe that faced with the crisis of 1997-1998, in the context of a sharp decline of domestic demand, enterprises in such countries as South Korea, Singapore, Thailand and Malaysia not only managed to maintain low export prices but in many cases even reduced them in order to continue to increase their market shares abroad. This was possible not only because of economies of scale, but to a large extent because the necessary savings could be made on wages of workers. Bearing these remarks in mind, the development of global imbalances will now be examined.

Before the crisis, the global economy as a whole had been characterized by falling savings and investment rates, particularly since the early 1990s, because of the decline in savings and investment in high-income countries. At the same time, the savings and investment rates in emerging economies and oil-exporting countries had been rising, except for the sharp fall in the aftermath of the 1997-1998 financial crises. However, the rates of saving in emerging economies and oil exporters have risen above investment rates, and with their increasing current account surpluses they have become capital exporters, while the high-income countries have become importers of savings, as their savings rates fell below their investment rates.

As the advocates of the global imbalances thesis point out (e.g. Goldman Sachs 2009; also Bernanke 2005, 2010), in Asia, since the 1997 crisis, there has been an explosive growth in the foreign exchange reserves held by the central banks. In fact, developing Asia has been accumulating reserves more than twice as fast as the rest of the world.

By far the largest foreign-exchange reserves have been accumulated by China. Their amount in 2006 was five times the IMF's resources (Wolf 2008:8).

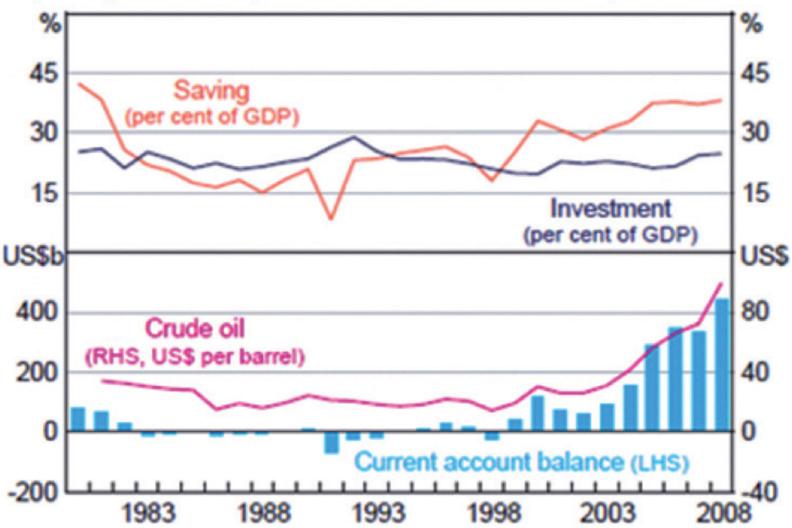
Figure 9: China's Foreign Exchange Reserves 2000-2008 (billion US$)



Source: Goldman Sachs (2009:7)

As regards the oil-exporting countries, their current account surpluses went up as a result of oil price increases, particularly in the period 2002-2008, reaching an all-time high (in nominal terms) of $150/barrel on July 3, 2008. As Belke and Gros observe, "oil producers have reaped enormous windfall profits from record oil prices [and they] tend to save a sizable proportion of their gains. This fact has one clear implication: an increase in the oil price leads to an increase in the global supply of savings, and hence, at least potentially, also to lower interest rates" (Belke and Gros 2010:3). Indeed, in these countries savings have largely exceeded investment, beginning with the late 1990s, as illustrated by the figure below.

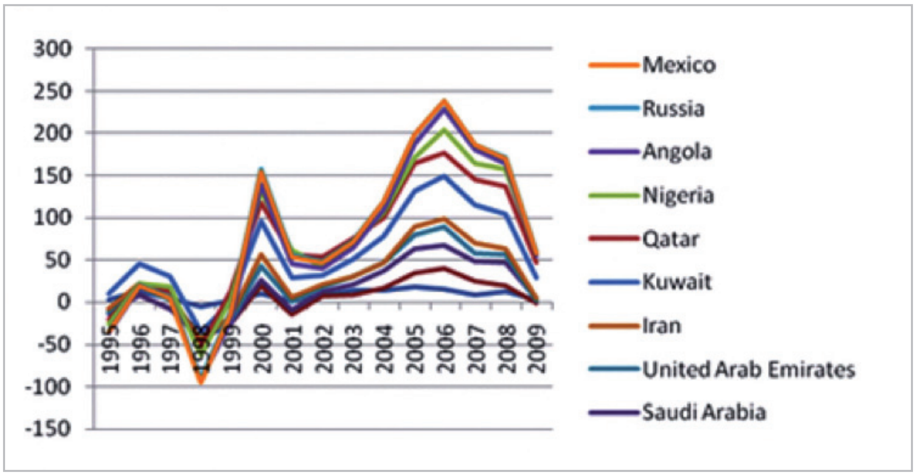
Figure 10: Savings, Investment and Current Account Balance in Oil-Exporting Countries (excludes Russia before 1992)



Source: IMF World Economic Outlook Database, Thomson Reuters

As a result, as detailed in the chart below, the current account position of major oil exporting countries has moved into huge surplus.

Figure 11: Current Account Balances of Major Oil-Exporting Countries (percent of GDP)

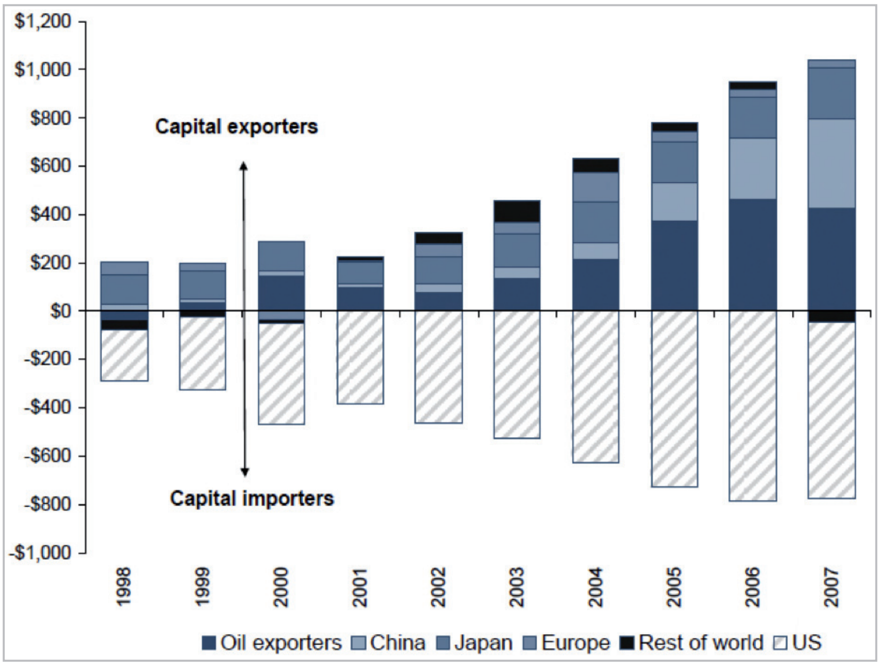


Source: IMF World Economic Outlook 2010

With the rise in oil-revenues, oil-exporters' current account inflows exceeded $65 billion per month in recent years and over $2.5 trillion from 2001-2007. Russia provides one of the most striking examples of capital accumulation. Its foreign exchange reserves soared from -$5 billion after the country's debt default in 1998 to nearly $487 billion in 2007 (Goldman Sachs 2009:8).

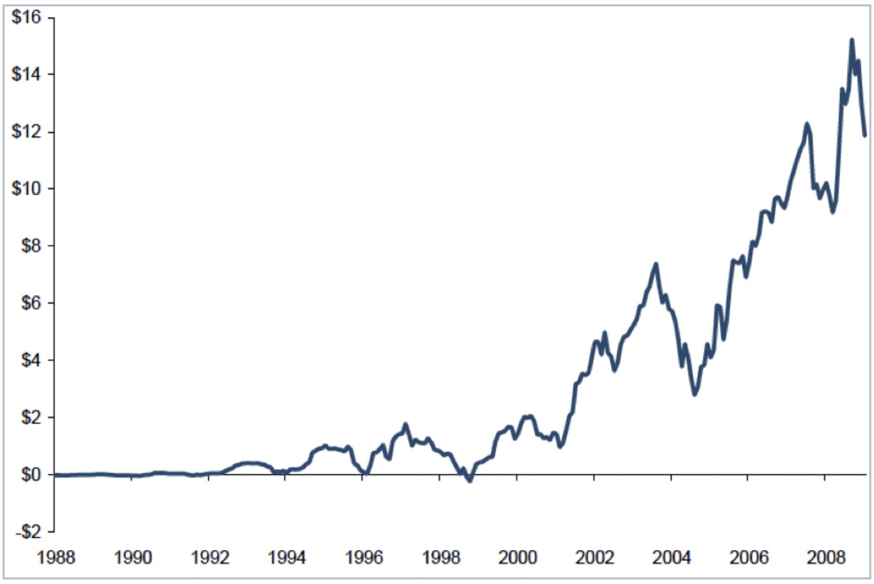
The holders of this massive liquidity – especially risk-averse central banks of emerging economies, and especially the Chinese central bank (see Figure 13) – chose US debt, and particularly the US Treasury bills, as their investment.

Figure 12: Capital Inflows by Religion (billion US$)



Source: Goldman Sachs (2009:11)

Figure 13: China's Net Purchase of US Log-Term Debt Securities (12-month moving average)



Source: Goldman Sachs (2009:12)

The objective of the governments of China and other Asian countries building foreign-exchange reserves and purchasing US Treasuries was not only to try to create buffers against potential future crises, but also to maintain favourable exchange rates of their currencies in relation to the US dollar. By undervaluing their currencies, these countries promoted their export-led development strategies.

It is only bearing in mind the characteristics of this setting – the abundant liquidity and low interest rates on the one hand, and the declining income of the majority of US wage-earners willing to maintain their standards of living despite the losses in income – which provided an environment conducive to easy borrowing that we can understand the US housing bubble. Of course a number of additional direct and conjunctural causes played an important role – the securitization of mortgages and the development of originate-to-distribute model of credit that were discussed in some IR works above, or the loopholes in the regulation of financial intermediaries, the failures of rating agencies to correctly evaluate complex credit derivatives and derivatives of derivatives, and outright fraud. All these issues have been extensively dealt with in Economics and IPE; however, to be able to understand how these mostly *micro-level* variables have resulted in a major global crisis, one necessarily has to focus on the structural issues raised above. This, however, has been missing from traditional literature in these disciplines and in IR as we saw earlier. The approach sketched out here has sought to demonstrate that in order to repair these shortcomings and to offer a more comprehensive analysis of the crisis one has to get out of the straightjacket imposed by the orthodoxy of the discipline. It is only by overcoming the dichotomies of IR – that is, by treating the political and the economic, and the domestic and the international, as organically related – that we can understand why problems in one small segment of the US housing market (the subprime market) has led to a major global downturn, or make sense of the apparent failure of governments and inter-governmental organizations to deal with the crisis. By going back to the contradictions of capitalism and the necessary role of the state in attempting to contain them, we can understand the period of post-World War II prosperity, and the present context marked by the decline in the ability of individual, territorially bounded states to fulfil this role in the context of global capitalism. In adopting such a holistic perspective, one may get insights into the severity of the current crisis for the state and grasp its potentially destabilizing consequences for the international system.

Conclusion

The key objective of this article was to analyse the engagement of the discipline of IR with the crisis. We have argued that the discipline has failed comprehensively to engage with the crisis and that this failure is a necessary consequence of the orthodoxy within the discipline, which has set the boundaries for what may be seen as legitimate concerns. Mainstream IR has been characterised by a range of dichotomies, particularly political/economic, state/non-state, international/domestic, war/peace, agency/structure and normative/non-normative. As a result, the discipline has marginalised and excluded concerns that lie beyond the domain of empirically observable aspects of "high politics" of external relations among states. This straightjacket imposed by the orthodoxy has rendered IR unequipped and incapable of understanding the nature of a financial crisis which transcends these dichotomies and its implications for the state and the international system that are at the core of the discipline's concerns.

We have suggested that the crisis has exposed the limits of the mode of regulation which, following Crouch (2009) may be referred to as "privatized Keynesianism," that is, a situation in which households, instead of governments, are encouraged to take on debt to stimulate the economy. Just as "public Keynesianism" before it, this mode of regulation has been successful for a period of time in resolving the dilemma of capitalism – the fact that wage labourers are part of production costs which capital structurally seeks to minimize, and also consumers that capital needs to sell the products and services to – but, with the outbreak of the crisis, it has reached its limits. With the emerging new global division of labour in which industrial production is increasingly transferred away from OECD states to emerging economies, and with the gradual loss of export shares by the former to the benefit of the latter, the state in the West is incapable of resolving this dilemma. Budget deficits and debt levels are unsustainable, but austerity measures that are widely believed to be necessary to sustain them depress further the economies in question by undermining consumer demand. We have reached a point at which the survival of the state and of the state-system as we know it is at stake.

For IR however, this has largely gone unnoticed as the discipline has focused at best on minor technical-instrumental issues and policy prescriptions, and at worst has not bothered to pay any attention to the crisis at all. Such an attitude to the crisis is clearly not only disturbing but also damaging to the discipline and needs to be remedied. In the final section of our analysis we have tried to sketch out the key axes along which the crisis may be approached. We have particularly emphasised the need to overcome the dichotomies, to open up the state in order to understand its organic relationship with the economy and to see how the developments in the realm of the economic affect the state, its external behaviour and the state-system, which have traditionally constituted the focus of IR.

Appendix

Table 1: Overview of the Top 20 IR Journals' Engagement with the Crisis

2008 Ranking	2009 Ranking*	Journal Title	No. of articles which attempt to engage with/analyse the current financial crisis				Total per journal
			2008	2009	2010	2011	
1	5	INTERNATIONAL ORGANIZATION	0	0	0	0	**0**
2	1	INTERNATIONAL SECURITY	0	1	0	0	**1**
3	11	EUROPEAN JOURNAL OF INTERNATIONAL RELATIONS	0	0	0	0	**0**
4	2	FOREIGN AFFAIRS	0	5	1	3	**9**
5	7	BIOSECURITY AND BIOTERRORISM	0	0	0	0	**0**
6	13	JOURNAL OF COMMON MARKET STUDIES	0	13	3	1	**17**
7	9	JOURNAL OF CONFLICT RESOLUTION	0	0	0	0	**0**
8	4	WORLD POLITICS	0	0	0	0	**0**
9	8	INTERNATIONAL STUDIES QUARTERLY	0	0	0	0	**0**
10	12	MARINE POLICY	0	0	0	0	**0**
11	10	SECURITY DIALOGUE	0	0	0	0	**0**
12	not in top 20	COMMON MARKET LAW REVIEW	0	n/a	n/a	n/a	**0**
13	3	JOURNAL OF PEACE RESEARCH	0	0	0	0	**0**
14	17	WORLD ECONOMY	0	1	0	6	**7**
15	15	INTERNATIONAL AFFAIRS	0	0	0	0	**0**
16	not in top 20	STANFORD JOURNAL OF INTERNATIONAL LAW	0	n/a	n/a	n/a	**0**
17	20	AMERICAN JOURNAL OF INTERNATIONAL LAW	0	0	0	0	**0**
18	not in top 20	SECURITY STUDIES	0	n/a	n/a	n/a	**0**
19	not in top 20	EUROPEAN JOURNAL OF INTERNATIONAL LAW	0	n/a	n/a	n/a	**0**
20	18	REVIEW OF INTERNATIONAL STUDIES	0	0	0	0	**0**
not in top 20	6	SPACE POLICY	n/a	0	0	0	**0**
not in top 20	14	REVIEW OF INTERNATIONAL POLITICAL ECONOMY	n/a	2	1	0	**3**
not in top 20	16	PACIFIC REVIEW	n/a	0	0	0	**0**
not in top 20	19	TERRORISM AND POLITICAL VIOLENCE	n/a	0	0	0	**0**
		Total per year	**0**	**22**	**5**	**10**	**TOTAL=37**

** As Thomson Reuters had not yet published journal rankings for 2010 and 2011, we used the 2009 rankings to select which journals to search for publications in 2010 and 2011.*

Table 2: Qualitative Analysis of the Top 20 IR Journals' Engagement with the Crisis

		Year				Total
		2008	2009	2010	2011	
Number of Articles and References	**1. Policy Consequences**	0	10 *(Barroso, Begg, Bremmer, Copsey et al, Hardie et al, Hodson et al, Jones, Quaglia a) b), Verdun)*	4 *(Buckley et al, Hodson, Moschella, Trichet)*	7 *(Ahamad, Bussière, Eichler, Johansson, Luo et al, Woo et al, Yao X. et al)*	21
	2. State Relations Consequences	0	6 *(Altman, Drezner, Eichengreen, Hodson et al, Johnson et al, Mattoo et al)*		1 *(Bremmer et al)*	7
	3. Origins of the Crisis	0	5 *(Carmassi et al, Cerny, Corden, Klein et al, Pauly)*	1 *(Altman)*	3 *(Anderton, Taleb et al, Yao S.)*	9

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