American power in the age of financialisation: An appreciation of Peter Gowan's contribution to the field of International Political Economy

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According to a recent report published by the European Commission (2013:14), the global financial crisis has only temporarily stopped the economic growth of the United States (US). In fact, the average per-capita income in this country will return to pre-crisis levels during the period 2014-2023. These figures contrast strikingly with the dim forecast concerning European economies. What are the reasons behind such great American success?

To address this question it is necessary to go beyond macroeconomic data and explore instead the political-economic and socio-cultural foundations of US power in the global order. In this regard, the work by Peter Gowan (1999, 2009) – as well as by other critical scholars in the field of International Political Economy (IPE) (see e.g. Konings 2008b; Panitch and Gindin 2012; Van der Pijl 2006; Seabrooke 2001; Strange 1988) – provide the analytical tools to examine how the US maintains its hegemonic status by fostering *financialisation*, a phenomenon that is broadly understood as the uneven expansion of finance in all areas of human life (for a recent review on the concept, see Zwan 2014).

Let us unpack this main proposition by investigating three historical phases: a) the growth of American finance in the post-war period; b) the uncertainties of the 1970s; c) the consolidation of American financial power from the 1980s onwards.

Internationalisation of American finance, 1945-1970

Between 1945 and the early 1970s, the US established hegemonic relations with other capitalist nations in the sectors of trade, production, security and knowledge (Panitch and Gindin 2008:24). At the same time something less visible was taking place: American banks – which pioneered market-based financial innovation since the early twentieth century – followed this expansion step by step. In so doing, American finance consolidated the international use of the US dollar and built the foundations over which the Nixon administration was eventually able to close the dollar-gold window – therefore circumventing the restrictions imposed by the Bretton Woods monetary system (Gowan 1999:19; Konings 2008b:47–49).

As Hudson (2003:348–350) shows, this was possible because Nixon pushed European countries and Japan towards a crossroad: either they accepted dollars and invested in US Treasury bonds or they could have dumped their dollar reserves on foreign exchange markets. In this case, the depreciation of the dollar would have nonetheless helped American exports. Europe and Japan accepted the first choice because US finance – together with its London satellite – was so innovative to absorb large inflows of capital and to guarantee a good rate of return.

Difficulties and uncertainties in the construction of US finance-led hegemony, 1970-1979

At this point it began to take shape what Gowan (1999:24) defines as the *Dollar-Wall Street Regime*, a phenomenon which works in two directions. On the one hand, the centrality of the dollar reinforces American financial markets because foreign investors and central banks prefer to keep their investments and reserves in dollars by placing them in the US financial system. On the other hand, the importance of American finance consolidates the hegemony of the dollar because it provides the best resources in terms of liquidity, diversification, innovation and competitiveness.

During the 1970s, the Nixon, Ford and Carter administrations let American finance expand in value and complexity – see for instance the growth of securitisation, the theoretical developments in options pricing and the launch of financial derivatives on organised exchanges such as the Chicago Board Options Exchange (MacKenzie 2006; Markham 2002). Unfortunately, the construction of American financial power was taking place in a contradictory way: although finance grew, it was nonetheless restricted by the economic recession, labour militancy and an expansionary monetary policy. Due to these problems, US authorities were unable to control double-digit inflation, the depreciation of the dollar and the outflow of capital. In other words, the domestic scenario did not yet provide the basis for American financial markets to properly absorb global credit inflows (Konings 2008b; Panitch and Gindin 2008:30). It fell short of fully complying with the requirements of the Dollar-Wall Street Regime.

The consolidation of American financial power from the 1980s to the present time

Paul Volcker became Chairman of the Federal Reserve (FED) in the August 1979. Once in this position, he let interest rates skyrocket through the temporary use of monetarist theories. This move ended the expansionary monetary policy, indirectly curbing labour militancy and restoring the profitability of US corporations. In brief, Volcker terminated the above-mentioned contradictions – inflation, dollar depreciation and capital outflows – which afflicted the American economy throughout the 1970s. At this point, the domestic environment was finally ready to make of the US the safe haven for global capital flows (Konings 2008a; Panitch and Gindin 2008). In a word, the Dollar-Wall Street Regime consolidated and the US became the leader of a finance-led global order. This newly established scenario implied two intertwined dimensions: a) American capitalism became a space where financialisation increasingly permeates business and society; b) other advanced economies exploited the dynamics of US-led financialisation as a benchmark to modernise their domestic institutions in a market-oriented fashion.

To simplify, financialisation in the US affected primarily production and consumption. First, high interest rates pushed big corporations – affected by an overproduction crisis – towards financial rather productive investments (Krippner 2005). This process reoriented managerial techniques, the degree of specialisation and industrial relations in line with the ideology of shareholder value (Lazonick and O'Sullivan 2000). Those were the years in which corporate raiders took over huge corporations through leverage buyouts and stripped their assets at a profit without regard for the future of companies and their workers. Second, a big portion of the US workforce lost its jobs during this process of corporate restructuring. In so doing, whilst middle and high-income households increased their wealth by investing in various speculative bubbles, most of the American population fell into a debt spiral to sustain their consumption patterns (Hyman 2011; Montgomerie 2006). In other words, finance penetrated both the corporate world and the daily life of American households.

From the 1980s onwards, other advanced economies began to modernise their institutions by importing the practices of American capitalism and adapting them to their historical trajectories and conflicts. As a result, financialisation acquired a heterogeneous character across the globe and at different scales. For instance, as clearly shown by scholars such as Bieling (2013) or Cafruny and Ryner (2008), the Economic and Monetary Union (EMU) and the process of European financial market integration aimed at creating strong Europe within a global order which is dominated by the US and its highly financialised dynamics.

Conclusions

As Gowan (1999) intelligibly anticipated, American financial markets and the dollar constitute the foundations of US hegemony in the global order. This makes of the US an area where financialisation permeates business and the fabric of society, a phenomenon that other Western countries imitate through different modalities and for reasons that are specific to each context.

The global financial crisis did not interrupt these processes. On the contrary, numerous studies suggest that current market-based reforms aim at reinforcing – rather than restraining – American financial power and the financialisation of everyday life (Kessler and Wilhelm 2013; Konings 2009).

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