From Casino Capitalism to Financial Crisis: A Constructivist Analysis of the Post-Cold War Financial Order

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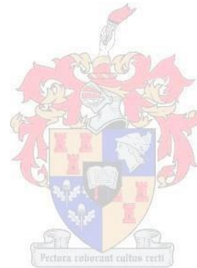

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ABSTRACT

This study applies a constructivist analysis in order to examine the extent to which the global capitalist system has gone through a process of financialisation in the post-Cold War order. Parallel to financialisation of the capitalist system, an increased degree of financial instability has followed. This has made the system more prone to financial crises. The study compares the core dimensions of the financial sector to that of a casino, explaining how champions of finance have forced everyone to become gamblers in the global economic system. The aim of the study is to identify, describe and explain the process of financialisation by looking at the power of norms.

The approach of this study is an in-depth analysis of a single case i.e. the process of financialisation, which makes it to be of a qualitative nature. The study has chosen to focus on the process of financialisation because of its close connection to financial crises on a regional and global scale. This links financialisation to globalisation and the actions of international finance in the developing world. The utility of the norm life cycle theory is demonstrated through its ability to account for changes occurring in international institutions. Moreover, how their mission and framework are susceptible to the influence of norms.

The study argues that the increased influence of finance in the international system must be understood in connection with the rise of neoliberalism in the USA and Britain during the 1980s. The norms of finance emerged with powerful politicians such as Margaret Thatcher and Ronald Reagan; they represent a larger group of *norm entrepreneurs* that have championed the norms of finance in the political and economic sector simultaneously. The study explains how with the help of these entrepreneurs the norms of finance cascaded through the international system, capturing powerful institutions such as the International Monetary Fund and the World Trade Organisation. This enabled the norms of finance to reach the third and final stage of the norm life cycle, which is internalisation. The resilience of these norms is discussed in connection with the global financial crisis of 2008-2009; a crisis largely created by an out-of-control financial sector.

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OPSOMMING

Hierdie studie verskaf ‘n konstruktiwistiese analise ten einde die mate te ondersoek waartoe die globale kapitalistiese stelsel deur ‘n proses van finansialisering gegaan het in die na-Koue Oorlog orde. Parallel tot die finansialisering van die kapitalistiese stelsel was daar ‘n toename in finansiële onstabiliteit. Dit het die stelsel meer kwesbaar gemaak vir finansiële krisisse. Die studie stel die kerndimensies van die finansiële sektor gelyk aan ‘n *casino*, en verduidelik hoe die kampioene van finansies ander geforseer het om saam te speel in ‘n globale dobbelspel in die ekonomiese stelsel. Die doelwit van die studie is om die proses van finansialisering te identifiseer, te beskryf en te verduidelik deur te kyk na die mag van norme.

Die studie se benadering is ‘n in-diepte analise van ‘n enkele gevallestudie (die finansialiseringsproses); hierdie is dus ‘n kwalitatiewe studie. Hierdie keuse fokus op die proses van finansialisering, aangesien lg. ‘n nabye band het met regionale en globale finansiële krisisse. Dit koppel finansialisering aan globalisering en die programme van internasionale finansies in die ontwikkelende wêreld. Die nut van norme se lewensiklus teorie word gedemonstreer deur die vermoë daarvan om veranderinge in internasionale instellings te verklaar. Dit verklaar verder hoe die doelwitte en raamwerke van hierdie instellings kwesbaar is vir die invloed van norme.

Die studie maak die punt dat die toenemende invloed van finansies in die internasionale stelsel begryp moet word aan die hand van die onluiking van neo-liberalisme in die VSA en Brittanje gedurende die 1980’s. Die norme van finansies het ontluik tesame met magtige politici soos Margaret Thatcher en Ronald Reagan; hulle verteenwoordig ‘n groter groep van norme entrepreneurs wat die norme van finansies voortgebring het in gelyktydig die politieke en die ekonomiese sektore. Die studie verduidelik hoe hierdie entrepreneurs gehelp het om die norme van finansies te laat versprei deur die internasionale stelsel, en hoe dit magtige instelligns soos die Internasionale Monetêre Fonds en die Wêreld Handelsorganisasie ingesluit het. Dit het dit moontlik gemaak vir die norme van finansies om die derde en finale fase van die norm lewensiklus te bereik: internalisering. Die langslewendheid van hierdie norme word bespreek in die konteks van die globale finansiële krisis van 2008-2009; ‘n krisis wat grootliks gebeur het weens ‘n anargistiese finansiële sektor.

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CHAPTER 1

Introduction and rationale

In 2008 the world experienced a global financial crisis triggered by the collapse of the housing market in the United States (USA). This crisis was the most recent in a series of crises that the global economy has experienced in the last three decades. Parallel to the crises, there has been a process of financialisation of the capitalist system, i.e. economic surplus from production and manufacturing of real goods is increasingly being replaced by trade in financial instruments such as derivatives, options and futures (Foster, 2014: 18). Do these developments signal a change of norms in the international system? This study defines the process of financialisation of the capitalist system as the increased influence and promotion of financial markets, interests, institutions and elites in the operations of the economy, as well as in national and international governing institutions (Epstein, 2001: 2). The rise of the financial sector cannot be understood without examining the rise of neoliberalism, because the dominance of the free market ideology laid the foundations for the return of the financial sector as the dominant form of economic activity in the USA and Western Europe, as it once had been at the end of the 19th century (Duménil & Levy, 2011: 18). The study uses the definition provided by Duménil and Levy, who used the term "finance" to collectively refer to the rise of neoliberalism as a representation of a particular capitalist class whose power is reflected in its ownership of stocks, bonds, derivatives and other financial instruments (2004: 16). Additionally, it refers to financial institutions such as central banks, banks and funds i.e. where the power of this capitalist class is concentrated (Duménil & Lévy, 2004: 2, 16).

It is through this framing that the study refers to the occurrence of new norms in the global economy, because those who advocate the financialisation of the economy argue for a change in understanding with regards to appropriate behaviour in the economy and governing institutions. The comparison of the financial sector to a casino is based on the endless encouragement to pay off one loan with another; in other words, the economy has increasingly been based on debt financing (Daly, 2006: 190). Susan Strange (1997) provided a detailed description of how these new norms and practices emerged when she wrote on the evolution of *casino capitalism*, and how credit came to play a dominant role in international finance.

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The term casino capitalism is closely connected to globalisation; the lowering or removal of trade barriers; and the further integration of national economies (Stiglitz, 2003). In a regular casino one is able to leave, but in the international economy everyone become involuntarily involved (Strange, 1998: 4). Casino capitalism is an important component in the study's investigation of the connection between financialisation and financial crises. The growth of the financial sector's autonomy has led to an increased occurrence of financial crises, because financial markets largely concern themselves with the creation of fictitious growth through the creation of fictitious assets, i.e. financial instruments, all aimed at creating rapid and efficient growth in the larger capitalist system, enriching the elite while jeopardising the majority (Duménil & Levy, 2011: 22, 23; Callinicos, 2012: 68). In order to acquire an understanding of the global impact of financialisation, the study understands the norms of finance through the larger collection of neoliberal norms embodied in the Washington Consensus, a term defined by Williamson (1990) with regard to the US approach to addressing crisis-ridden economies in the developing world. The Consensus offered ten policy prescriptions that would assist these economies in achieving economic growth and development listed in the table below.

Table 1 Washington Consensus policy prescriptions (Williamson, 1990)

Prevent large fiscal deficits
Move public spending away from subsidies
Expand tax base, adopting a lower tax rate
Letting the market determine interest rates
Ensure competitive exchange rates
Reduce protection on trade
Liberalise inward foreign direct investment
Privatise state-owned companies
Deregulate market forces
Protect the right to property

However, the list of policies intended for the developing world's economic growth programme has come to constitute a comprehensive definition of the neoliberal/market fundamentalist ideological approach to economics (Rodrik, 2006: 974). From here on the term "Washington Consensus" will refer to this ideological approach. Furthermore, the term "Wall Street" will refer to powerful financial institutions in the USA that operate in the

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international economy; furthermore, the term will also refer to the close connection between these financial institutions, the US Treasury Department and the International Monetary Fund (IMF), otherwise known as the Wall Street-Treasury-IMF complex (Wade & Veneroso, 1998: 18). These two terms are key in order to identify, describe and explain the process of financialisation – the study examines this process through the lens of constructivism, proposing that this theory's ideational focus and understanding of norm dynamics can provide an explanation of how finance came to dominate the global economy. The work of Finnemore and Sikkink (1998) provides a gateway into the understanding of how norms and ideas play an important role in strategic social construction. The theory of constructivism is the product of the Third Great Debate within the field of International Relations (IR). This is a debate between various modes of critical theory, where IR theorists disagreed on the ontological focus and epistemology of critical theory. The debate occurred around the same time when neorealism started to lose its stronghold within the field of IR theory. With the end of the Cold War in 1991, neorealism experienced a crisis of legitimacy, since it was unable to account for the major structural change (Price & Reus Smit, 1998: 263). Constructivists concerned themselves with questioning the motivation and understanding behind existing material structures such as international organisations. They argued that normative and ideational dynamics must be considered when analysing material structures, because the structures are the product of shared knowledge, or mutual understanding (Price & Reus Smit, 1998: 266). The utility of constructivism in explaining the transition to finance capitalism in the global economy lies in its ability to analyse and account for changes in ideas and norms in the international system. The evolution of the post-Cold War financial order will be explained through Finnemore and Sikkink's (1998) three stages: norm emergence and norm entrepreneurs, norm cascades and norm internalisation. These three stages function as descriptive and explanatory phases of how the financial sector has become so influential in the global economic system.

Strategic social construction

By applying the study of norms, it is possible to make sense of how the practices related to finance capitalism have become institutionalised. Although there are a number of different norms and norm categories, most scholars make the distinction between *constitutive* norms, and *regulative* norms. The latter are about constraints on behaviour, while the former create new actors, interests or categories of action (Finnemore & Sikkink, 1998: 891). The study is concerned with both of these categories, seeing as the norms around finance were first

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constitutive in the sense that they created new actors and interests, and after a while they became regulative in the sense that financial norms are so powerful that they create order and constrain behaviour. Finnemore and Sikkink (1998: 888) argue for a focus on norms because of their important role in strategic social construction, processes where actors deliberately and rationally attempt to adjust preferences, social context and identities to fit their outlook. Norms can both be agents of stability and agents of change (Finnemore & Sikkink, 1998: 891). Norms are about what is considered to be proper or the right behaviour. There is an element of intersubjectivity or mutual understanding of norms that guide us in social settings, meaning that they provide justifications for the actions being taken and they also “leave an extensive trail of communication among actors that we can study” (Finnemore & Sikkink, 1998: 892). The international system functions on a shared understanding of ideas, expectations and beliefs that again constitute appropriate forms of behaviour that introduce structure, order and stability (Finnemore & Sikkink, 1998: 894). For a norm to become a rule or an institution, it must go through a three-stage process: emergence, cascade and internalisation. New norms emerge through what Finnemore and Sikkink (1998: 898) defined as “norm entrepreneurs”, actors who have strong convictions about what constitutes rightful and proper behaviour. They use a particular language in order to create attention around, and acceptance for, the new issues for which they are advocating (Finnemore & Sikkink, 1998: 897). In this case, the IMF, the World Trade Organisation (WTO) and the World Bank have been key actors for both norm cascade and norm internalisation on a global scale. Norms cascade through states, international organisations and networks, where they gain legitimacy and wider approval. Finally, the norms are internalised when they become part of frameworks of law, professions and bureaucratic systems (Finnemore & Sikkink, 1998: 898).

With the collapse of the Soviet Union, the Cold War came to an end in 1991. During the 1980s, the US economy went through a period of deregulation, privatisation and liberalisation, ideationally supported by the Washington Consensus (Stiglitz, 2003: 53). President Reagan in the USA and the Prime Minster of Great Britain, Margaret Thatcher, in the early 1980s, initiated a process of shrinking of the state and a *neoliberal* shift in the economy (Sogge, 2002: 124). It was during this neoliberal shift that the most violent features of capitalism were unleashed, giving power back to the market at the expense of social welfare (Duménil & Lévy, 2004: 1).

As a result of the neoliberal shift, more emphasis was put on more freedom for the market and a replacement of publicly owned industries with private enterprise. During this period the

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banking and finance sector grew significantly, while simultaneously experiencing a process of deregulation (Cox & Schechter, 2002). The dominance of this ideology led to the capturing of the two most powerful economic international institutions at the time: the IMF and the World Bank. Through globalisation, the Washington Consensus has become the blueprint (norm?) for economic activity. During the 1980s the West experienced high levels of economic growth; this development was attributed to the connection between capitalism and Western democracy. According to neoliberal scholar, Francis Fukuyama, this made Western democracy and capitalism the ultimate form of government and it could not be supplanted by any other alternative. Fukuyama therefore made his famous claim about how the West now had reached the stage: end of history (Walt, 1998: 37–39). If states outside the West wanted the same success, they would have to adopt the same political and economic institutions. The end of the Cold War in 1991 gave increased legitimacy to the process of exporting the Western system of government to the rest of the world (Lee & Stanley, 2014). A series of financial crises and political instability across the world would seriously challenge Fukuyama's theory.

Norm emergence and norm entrepreneurs

This section explains the influence of finance in the global capitalist system through Finnemore and Sikkink's (1998) understanding of how norms emerge and change international relations. The usefulness of their work on norms can be found in how they explain the emergence of norms, how norms cascade through multilateral institutions, leading to internalisation in the form of becoming part of legal/bureaucratic frameworks (Finnemore & Sikkink, 1998). The use of financial instruments in the economy represents a certain set of norms and practices of economic activity. The financialisation of the US economy was a part of a larger neoliberal project, which advocated free market values, deregulation and a streamlined state structure only responsible for providing law and order (Harvey, 2007: 22). Neoliberalism refers to the ideas of a free market and entrepreneurship; financialisation has become the main instrument for asserting these ideas in as many sectors of society it can (Harvey, 2007: 22). The high inflation rates and labour tensions that characterised the volatile 1970s had been dealt with in a swift and effective manner by the adoption of neoliberal politics in both the USA and Great Britain, led by President Reagan and Prime Minister Margaret Thatcher respectively (Mackenzie, 2008: 184). The connections between power and capital have traditionally been very tight. However in the USA this has been something of a special relationship. The financial elite has been able to convince the power players in US

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politics that what is good for the financial sector is also good for the country. Because of this conviction, the financial elite did not have to buy their way into to the pockets of politicians in Washington DC along the same lines as the tobacco industry had to, because they had built a belief system around their political ambitions (Johnson, 2009). The intersubjective understanding that was established gave meaning to the incentives and objectives of the financial elite (Widmaier, Blyth & Seabrooke, 2007). This outlook can be characterised as an agent-orientated constructivist perspective, where the politics of persuasion is central for understanding normative change (Widmaier et al., 2007). It is this perspective that this thesis will seek to explain.

The financial sector became an important policy focus for the US government, as a result of the banking and insurance industry's intensive lobbying of politicians from both the Republican and the Democratic Party. One example of this was the appointment of Paul Volcker as chairman of the Federal Reserve during the Carter and Reagan administrations. Prior to his appointment, Volcker had been a financial economist at Chase Manhattan Bank. His successor, Alan Greenspan, was a financial consultant, served as chairman during the Bush 1, Clinton and the Bush 2 administrations. President Clinton appointed Robin Rubin, the once co-chairman of the powerful investment bank Goldman Sachs, as his Treasury Secretary. President George W. Bush acted along the same lines when he offered the same cabinet position to CEO of Goldman Sachs, Henry Paulson (Harvey, 2007; Johnson, 2009; de Graaff & van Apeldoorn, 2011).

With the merging of Wall Street and Washington DC the neoliberal agenda was unstoppable. Deregulation of the financial sector meant increased use of financial instruments as engines for economic growth, such as credit risk default swaps. Wall Street bankers convinced the entire political elite that they knew exactly what they were doing, and that this was the best way to create growth in the US economy. The notion of "Faith in free financial markets grew into conventional wisdom" was echoed in established financial newspapers such as *The Wall Street Journal* and in the branches of government (Johnson, 2009). The world experienced how wrong these convictions were when the whole system collapsed in 2008, leading the world economy into the worst economic crisis in since the 1930s (Johnson, 2009). The following two sections will elaborate on the next stages of the norm cycle; the merging of financial and political power in the US can be seen, from the norm life cycle perspective, as norms cascading through formal institutions and organisations, and eventually becoming internalised through the legal framework of both the US government and several multilateral

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institutions. The cascading and internalisation of financial norms in multilateral institutions, which eventually created a system of global financial governance, can be understood through explaining the effects of globalisation (Wade & Veneroso, 1998: 20).

Norm cascading and internalisation

The influence of neoliberalism can be found in several sectors of public life. The norms of finance found their way into the economic institutions of the US, but also onto the world stage through the IMF, WTO and the World Bank. Through these organisations, the reach of neoliberal ideology and the practice of finance capitalism became global. The IMF is the agency through which international finance is regulated, while the rules and regulations for international trade are set through the WTO (Harvey, 2007: 23). These powerful international institutions are key agents in the US quest for global governance. However, it should be noted that the extension of the economic system of finance and deregulation beyond the US mainland is vital for a specific group of people; the political and financial elite – in other words, the wealthy. Economic globalisation is an important tool for the neoliberal agenda to assert its influence on a global scale (Murphy, 2000: 791, 792). There are a number of historical developments that illustrate the influence and power of these international institutions.

The road to financialisation through globalisation

The norms of finance's cascade through multilateral institutions can be explained by the concept of globalisation. After WWII, the international system experienced great advances in communication and transportation technology, making trade and commerce between the world's regions more interconnected. The IMF and the World Bank were created in 1944 at the Bretton Woods conference, and were tasked with two distinct responsibilities: the IMF was tasked with safeguarding economic stability in the global economy with the ability to go in and "save" national economies when they were struggling. Originally, the mantra of the IMF was that markets could not function well if left completely alone and therefore needed to be safeguarded by a public institution; the IMF gets its funding from taxpayers around the world (Stiglitz, 2003: 12). However, reports on the Fund's lending activities are only available to national ministries of finance and central banks (Stiglitz, 2003: 12). After the turbulent 1970s, with oil crises and economic instability, the rise of neoliberalism radically changed the structure of the IMF. It began to push for market liberalisation in all of the world's countries, regardless of whether they were developed or developing countries. It now

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preaches policies such as deficit reduction, increase in taxes or the raising of interest rates, all of which lead to economic contraction (Stiglitz, 2003: 12, 13). The World Bank went through a similar transformation. It was initially tasked with development and reconstruction of the economies in the Third World. In 1981 President William Clausen and chief economist Ann Krueger waged war against governmental interference in the economy, a practice that former presidents had championed, but was now completely reversed (Stiglitz, 2003: 13).

The World Trade Organisation (WTO)

It was clear that the IMF was the engine of neoliberal policies globally, while the World Bank served as an emergency lender, which could provide tens of billions of dollars in support (Stiglitz, 2003: 14). A third actor was introduced in 1995 with the creation of the WTO, which replaced the General Agreement on Tariffs and Trade (GATT). While the IMF and the World Bank concerned themselves with loans that would create dependency on the US, the WTO engineered trade agreements that reflected neoliberal ideas and policies (Chorev & Babb, 2009: 461). The IMF, the World Bank and the WTO became the "pillars of a global, neoliberal order" (Chorev & Babb, 2009: 460). The global reach of these institutions will now be exemplified through a number of economic and financial crises that occurred in emerging markets across the globe during the 1980s and 1990s, beginning with the implementation of the Washington Consensus in Mexico.

The Mexican financial crisis of 1994

Mexico was the first victim of globalised finance when it defaulted on its foreign debt in 1982 (Burner & Simms, 1987). It had to look outside of its borders for help in order to be able to salvage its economy (Boughton, 2000). The default gave the IMF the green light to move in and wreak havoc with another country's economic system – forcing through a range of policies in line with its structural adjustment programme model. The debt crisis in 1982 lead Mexico into a financial crisis where the root cause could be attributed to the failure of achieving a balance in payments, also known as the Tequila crisis of 1994-1995 (Calvo & Mendoza, 1996: 262). The reasons behind Mexico's economic disaster can be linked to structural adjustment programmes in the form of deregulation, capital flows and currency instability (Calvo & Mendoza, 1996: 235, 236). It lead to bank runs not just in Mexico but in emerging markets all over the globe, which illustrates the dangers of fragile banks and international capital flows (Calvo & Mendoza, 1996: 263). As with Argentina, the role of IMF in the Mexican economy led to a worsening of the situation for the country. Moreover, it

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serves as an example of how the norms of finance encouraged Mexico to borrow far beyond its means from Western creditors, and thereby having to request help from the IMF, with disastrous consequences for the Mexican authorities' ability to supervise the country's own economy.

Argentine economic crisis 1999-2000

Argentina was under military rule from 1976 to 1983. During that time the country took on massive amounts of debt, a significant amount of which was used to arm the military forces. The military regime was an ally of the USA in the fight against communist influence in Latin America, with strong neoliberal ideals (Halevi, 2002). However, most of the foreign loans were taken by the private sector. During the military dictatorship close ties between financial capital, multinational corporations and local business elites were forged (Halevi, 2002: 17). Argentina's debt-financed economy was attractive to international finance companies because of its high-value and high-risk currency, the peso. Local capitalists took up huge loans because they knew that the taxpayer would ultimately pay the price because of the backing of the neoliberal Argentine government (Halevi, 2002: 18–20). The IMF was not only aware of the imminent crisis, but was actively pushing for it; through harsh austerity measures the IMF wanted to free up Argentina's assets for sale on the international market (Halevi, 2002: 21). What happened in Argentina serves as one of the first examples of how the norms of finance cascaded onto the world stage through the IMF's involvement in domestic economies in the developing world. It shows how international financial institutions' involvement in domestic economies can lead to increased vulnerability to crises and economic instability.

Asian flu

Reckless borrowing and widespread currency speculation in Thailand laid the foundations for a severe economic crisis in East Asia in 1997 (Stiglitz, 2003: 89). The developments in Malaysia, Thailand, The Philippines, Korea and Indonesia illustrate the rampant destruction that can come with the increased influence of international finance and the Washington Consensus; privatisation and deregulation led to increased freedom for banks and corporations. It ensured that there was little or no governmental oversight that could regulate the amount of capital borrowed by these banks and firms (Radelet & Sachs, 2000: 117). This was especially true for South Korea, where private companies had acquired massive amounts of debt to finance their operations. Then when the rumours about problems in South Korea started to emerge on Wall Street, investors panicked and began to halt the issuing of loans

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given to East Asian business, thereby laying the foundations for a widespread panic and eventually a devastating economic crisis (Stiglitz, 2003: 94). Because of floating exchange rates, speculators were encouraged to gamble on the devaluation of the Thai baht, making huge sums of money when the local currency collapsed against the dollar (Stiglitz, 2003: 89, 95). The actions of the IMF only lead to an intensification of the economic destruction. The Fund advised the East Asian countries to further liberalise their markets as the problems began, and because of deregulation the bailout packages it provided were used to pay off the Western creditors rather than improving economic conditions for the countries' populations (Stiglitz, 2003: 95).

9/11 and finance

Further cascading and internalisation of financial norms would intensify after the 9/11 terrorist attacks in the USA, which had dramatic implications for both the structure of the US state structure and civil society. A number of new security policies were introduced by the Bush administration, including extensive surveillance and monitoring of ordinary citizens' Internet and communication activity in the name of national security. Moreover, the surveillance was done through cooperation with major tech companies such as Microsoft and Google (Foster, 2014: 23). Furthermore, there was a merging of finance capital and the military network of the US, which became the *financial*-military-industrial complex (Giroux, 2013: 49). The 9/11 terrorist attacks could be seen as a blessing in disguise for the proponents of neoliberalism, because they could now justify a further scaling back of expensive social welfare programmes in order to channel more capital into the financial system (Giroux, 2013). Because of the influence of the norm entrepreneurs Robert Rubin, Henry Paulson and Lawrence Summers, the financial elite could ensure that state practices would work in their favour (*Inside Job*, 2010).

The financial crisis of 2008-2009 and the Basel regime

In 2007 a number of the world's largest financial institutions collapsed, causing a massive meltdown in financial centres around the world and eventually a global financial crisis in 2008. The crisis illustrates the importance of financial norms in the global economy, because when these institutions defaulted, it created an economic crisis in the entire global economic system that would affect every region in the world. The meltdown resulted in a severe decrease in international trade, comparable only to the Great Depression in the 1930s in scope (Helleiner, 2011: 68). While a number of factors explain how the collapse happens, this study

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focuses on the mortgage crisis and the absence of regulation of Wall Street institutions, in particular how banks approved applications for housing mortgages regardless of the (non-) creditworthiness of the borrower; these were known as subprime mortgages (Helleiner, 2011: 69). The situation worsened significantly with the collapse of several large hedge funds that had invested heavily in housing mortgages-related financial products, which in turn led to the collapse of major financial institutions such as the government-sponsored lending agencies Fannie Mae and Freddie Mac.

After these events, there was no confidence left in the market (Helleiner, 2011: 69). When the crisis hit, scholars asked themselves how this was allowed to happen. Why did those charged with regulating financial and economic activity not put the brakes on before the crash occurred? Because the financial crisis of 2008-2009 was just as much a regulatory failure as it was a market failure (Helleiner, 2011: 67). More importantly, why have adequate steps not been taken to *re*regulate the financial sector? This is because the norms of finance are so resilient that not even a crisis of the magnitude we saw in 2008-2009 can adequately challenge them. The belief in the free financial market goes beyond Wall Street and Washington DC. Everyone from journalists, academics, career counsellors, lawyers to regulators promoted the norms of finance (Kwak, 2013). While the lack of financial regulation has certainly been questioned after the crisis, those that advocate for independent financial institutions still call the shots. Moreover, politicians as well as regulators are now agreeing with bankers that we really need the mortgages-backed securities industry to come back in full force in order to further stimulate the housing market. These same mortgage-backed securities were pointed out as being one of the main factors in creating the financial meltdown (Kwak, 2013).

Other than that, very little is being done to force the banks to accept a greater portion of the risk in financial transactions, such as increasing the minimum capital requirements i.e. having the banks put up more of its own money when it conducts business. One of the main messages in the Basel Accords is to encourage banks to increase their capital requirements in order to dis-incentivise them from making risky loans (Kwak, 2013). Although the regulators failed to do what they were tasked with, there was no shortage of plans to prevent this sort of market failure. The Basel Accord of 1988 created a capital standard for all international banks. It was an attempt to safeguard international banking and make financial markets more resilient. Additionally, it intended banks to be able to make their own risk assessments so that they would be prepared for a crisis (Helleiner, 2011: 72). The framework of the Basel Accord

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was updated to Basel II in 2004, following the economic crisis in East Asia. The updates that were made did not have much effect in stopping the financial meltdown in 2007 (Demirguc-Kunt, Detragiache & Merrouche, 2013: 1147). Since the beginning of the Basel Accords the goal has been to force bankers into putting more of their own capital into the bank's reserves, with the goal of reducing dependency on governments. Increasing capital requirements became the main focus of Basel III, as a result of what happened after 2007 when several of the investment banks on Wall Street needed a government bailout in order to stay in business (Demirguc-Kunt et al., 2013: 1147).

The norms of finance capitalism made sure that regulation would not stand in the way of making huge profits. Although politicians around the world declared that the dominance of neoliberal ideas was over and that markets would now be under tight control, the IMF's position in the world shows that this is not so. The monetary institution actually profited greatly from the global economic crisis, because it was put in charge of jump-starting the global economy (Chorev & Babb, 2009: 459, 460). In sum, the steps taken after the crisis to reign in finance have not been effective at all and the norms of finance remain effectively unchallenged.

Problem statement

The financialisation of capitalism has resulted in an unregulated, volatile and debt-driven global economy. IR theory is trying to make sense of the functions of the international system, and through international political economy (IPE) it tries to understand the chaos that followed the financialisation of the global economic system. Is it possible to identify, describe and explain the process of financialisation by applying a constructivist analysis? Through Finnemore and Sikkink's presentation of the life cycle of a norm, this study attempts to account for the norms, values and institutions that have been created by finance since the end of the Cold War in 1989; the fall of the Soviet Union was also the fall of communism as a competitor to the free market ideology of the West. The norms of finance and contemporary ideas on the free market began to emerge during the Reagan administration, which was an era characterised by deregulation, liberalisation and privatisation. The norms cascaded through the global institutions of the IMF and the World Bank. Further internalisation of norms occurred with the establishment of WTO in 1995, illustrating the importance of globalisation for the spread of neoliberalism as an ideology. With financial norms came increased financial and economic instability; currency speculation led to economic crises in Argentina and East

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Asia. These crises were only the beginning, because the world went into a global recession as a result of the complete breakdown of the world's largest financial institutions in 2007; the problems spread to the real economy in 2008, causing widespread unemployment and sluggish economic growth, which still affects economic activity seven years down the line.

Research questions

The aim of the research and case study will be guided by one primary research question:

How and why has finance emerged as an important sector in the global economic system since the end of the Cold War as described and explained by IR?

In order to provide a deeper understanding of the process of financialisation, the study asks three secondary questions:

1. Who have acted as norm entrepreneurs in the championing of global financial governance in the global economic system since 1989?
2. How have norms related to finance and globalisation emerged, and how have they cascaded in the global economic system since 1989?
3. Which institutions have been created and what norms inform their operation in global financial governance since 1989?

Research design and methodology

In order to explain the process of financialisation of the capitalist system, the study will make use of a number of journals, books and newspapers to collect information. It will conduct an analysis of secondary sources, accessed through Stellenbosch University's library and databases, as well as Google Scholar. This is known as a desktop study, secondary data study, or a "documentary and archival analysis" (Burnham, Grant & Layton-Henry, 2008: 187). The approach of the study will be of a qualitative nature, combining two dimensions of research: descriptive and explanatory (Neuman, 2006: 35). The approach is of a descriptive nature because it will provide a detailed and accurate image of how the financialisation of the capitalist system occurred, and what the role of the financial sector is in the global economic system. Additionally, it is descriptive because it will also attempt to identify who has been involved in this process (Neuman, 2006: 35). The study also has elements of an explanatory dimension, because it will attempt to explain why the financial sector has become so important in the global economic system (Neuman, 2006: 35). Finally, the methodological approach will be interpretive, which often is contrasted with a positivist approach to social

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science. While positivist theories, such as neorealism and liberal institutionalism, concern themselves with empirical observations and objective research, the interpretive approach is strongly concerned with investigating the meanings behind the empirical and material structures that prevail in the international system, because they are first and foremost socially constructed (Neuman, 2011: 99–101). One of the major theorists within this methodological approach was the political scientist Max Weber. He emphasised the importance of understanding the historical and social context that people find themselves in when attempting to analyse material structures. This places constructivism as a theory within the interpretive approach in the social sciences (Neuman, 2011: 101).

Theoretical framework

The evolution of finance in the capitalist system is about changes in the material and ideational sphere of economics and politics. Most economic growth still comes from manufacturing of goods and services in the "real" economy, but this is changing. International finance has integrated the world economy and made physical distance between national economies almost disappear. The nation-state's role as an independent actor in the main the domestic economy has been reduced, and is increasingly challenged by the global financial system (Strange, 1990: 260). A process of deregulation and liberalisation of trade and investment started in the 1970s, and was then intensified by the Reagan administration during the 1980s (Mackenzie, 2008: 184). The New Deal era of the 1930s, based on intervention by the state in the economy and channelling on credit to social programmes, was over, and a more market-oriented capitalist era was launched (Canova, 1995). Deregulated markets would not only increase profits for firms through intensified competition, but also presumably benefit the public through resource allocation, growth and efficient economic activity. According to neoliberalism, this would ensure better competitiveness for US business abroad and more productivity domestically (Canova, 1995: 1296). However, this was not the case. Financial deregulation led to an increase in financial and economic crises, where bankers have had to rely on precisely what they preach against, namely government bailouts (Canova, 1995: 1296–1297; Helleiner, 2014: 9). While the investment banks and international financial institutions such as the IMF are material structures, they are also ideational structures that represent certain ideas about what is proper economic activity; the material structures thus represent a specific socially constructed reality (Adler, 1997: 319). Banks and financial institutions are shaped in the image of neoliberal ideas and on "human

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action and interaction, which depends on the dynamic normative and epistemic interpretations of the material world" (Adler, 1997: 322).

The study explains financialisation of the capitalist system through Finnemore and Sikkink's norm life cycle perspective. The utility of this perspective lies in its ability to explain how new norms emerge in the international system, how they cascade into legal frameworks, and how they eventually become internalised (Finnemore & Sikkink, 1998). In the first stage, norms emerge as a result of the activity of norm entrepreneurs, who are agents convinced of certain ideals and values, and who attempt to persuade others to accept their norms; neoliberal norms emerged in the 1970s with norm entrepreneurs such as Ronald Reagan, Alan Greenspan and Robert Rubin, as well as institutions such as IMF and WTO (Finnemore & Sikkink, 1998; Stiglitz, 2003; *Inside Job*, 2010). Norms enter the second stage by cascading through the international system, encouraging other states to become norm followers through a socialisation process. This is to enhance their legitimacy. International institutions such as the IMF and WTO will apply further pressure for the implementation and acceptance of economic programmes in line with the neoliberal ideology, such as trade in financial instruments (Finnemore & Sikkink, 1998; Stiglitz, 2003). Through the cascading process, the norm enters the third and last stage, where it becomes internalised i.e. taken for granted. The following section describes how each of the chapters are structured, and what their main points are.

Profits connected to financial activity have grown on a massive scale since the 1970s, which means that finance has become a crucial section of the international economy (Foster, 2008: 2). Finnemore and Sikkink's norm life cycle provides the roadmap for explaining the rise of finance as the dominant force in the contemporary global economic system. Chapter 2 describes the evolution of finance and the concept of globalisation, and how the two concepts can be used to explain the development of a global economic order. Furthermore, the two concepts are key factors in describing the age of imperialism, also called the Age of Empire, which dominated international affairs prior to WWI. The Age of Empire is essential in creating a context for the rise of finance in the 1970s and 1980s. Because contrary to what many believe, the norms of finance made their first appearance on the global stage in the early 1900s, leading to the Great Depression in 1929. Prior to the 1970s, financial norms were denied an active role in the global economy. Chapter 3 presents the evolution of IR theory, the central theoretical approaches in the study and an overview of several debates that have taken place in the discipline; the Third Debate led to the establishment of constructivism. Chapter 4

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merges theory and case together and shows the utility of the norm life cycle theory in its ability to describe, identify and explain the process of post-1980s financialisation. The problem statement is resolved and the research questions are answered in Chapter 5, where the study determines the utility of the norm life cycle theory in explaining the process of financialisation.

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CHAPTER 2

The history of finance

Introduction

Why did finance become so dominant in the global economic system after the end of the Cold War? In this chapter the study attempts to explain the history of finance by looking at a number of ideational shifts that have occurred in the global system since the 1800s. The relevance of this historical overview is to account for the changes that occurred not just with regard to rules and institutions of the global economic system, but also to its stability. It will begin by examining how the financial sector began to grow significantly during the late 1800s, and how its enormous growth and influence in the global economic system lead to the most devastating economic crisis the world had experienced to that date: the Great Depression. Interestingly enough, only the last four decades has finance been able to reach the same level of influence that it once had prior to the Great Depression of the 1930s. It was during this era that a number of today's major financial institutions and financial innovations were created (Duménil & Lévy, 2004: 11, 12). The chapter briefly examines the post-WWII era, when finance became tightly regulated and the state assumed an interventionist role in the economy – adopting macroeconomic policies that were heavily influenced by Keynesian economic theory (Reinert, 2012: 4). However, the bulk of the literature in this chapter will deal with how finance returned as a highly influential form of economic activity at the end of the 1970s, identifying how the rules of finance are reflected in a number of international institutions. It does so by looking through the lens of modern globalisation, which entails looking at how the policy prescriptions of the Washington Consensus promoted the interests of international finance in the developing world, focusing especially on Argentina and East Asia (Stiglitz, 2003: 17–20). By describing a number of financial crises that occurred in the emerging markets, the chapter tries to illustrate how the global economy has come to resemble a casino, where high-stakes gambling is practised through risky investments and speculation (Strange, 1997). Finally, the study describes and explains the prevalence of finance by examining the toothless regulatory measures put in place in the aftermath of the global financial crisis of 2008-2009, demonstrating that finance has yet to be regulated to the extent that it cannot pose such a threat to financial stability (Johnson, 2009; Krugman, 2010a; Palley, 2011: 16).

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The age of empire

The financialisation of the capitalist system did not start with the election of President Reagan in 1981, but it started with the expansion of banks and multinational corporations in the late 1800s as a result of an intense process of industrialisation and technological innovations. Lenin wrote on how the competition in the free market led to the creation of huge monopolies in different sectors of the economy An example of such a monopoly was the formation of the Standard Oil Company in the USA in 1900, together with the United States Steel Corporation and the American Tobacco Company, which ensured the co-optation of most of the skilled labour, complete access to the best resources, all with the blessing of the state. Lenin called this the "socialisation of production" (Lenin, 1999: 39). However, it also gave rise to the modern banking corporations and other major financial institutions, and the global economic system was about to experience a merging of finance and the real economy (Nelson, 2006: 8; Reinert, 2013: 59). Additionally, the world experienced the creation of a deep connection between finance and globalisation, and how the free market became the tool of dominance for the Western capitalist economies over the rest of the world. As Lorimer wrote in the introduction to *Imperialism: The Highest Stage of Capitalism* (1999: 10):

> Lenin noted "five basic features" as the imperialist stage of capitalism: (1) the concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life; (2) the merging of bank capital with industrial capital, and the creation on the basis of this "finance capital", of a financial oligarchy; (3) the export of capital as distinguished from the export of commodities acquires exceptional importance; (4) the formation of international monopolist capitalist associations which share the world among themselves; and (5) the territorial division of the whole world among the biggest capitalist powers is completed.

According to Lenin, the outbreak of war in 1914 could not be explained through the lens of diplomatic activity, but by examining the objective position of the dominant class in all "…belligerent countries" (Lenin, 1999: 27). The work of Lenin on imperialism and its connection to capitalist development is crucial because of its many references to contemporary developments in the international system. According to Lenin, globalisation is not a new phenomenon. The international system is only now starting to reach the same levels of interconnectedness as it once had prior to WWI. Lenin approached the concept of globalisation by examining the increase in railroads across the world from 1890 to 1913; the building of the railway symbolised the spread of capitalism and Western understandings of democracy (Lenin, 1999: 28). The first stage of this globalisation was the concentration of production; the creation of large enterprises that eventually transitioned into monopolies was the beginning of the dominance of finance capital in the late 1800s.

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Globalisation included important technological innovations such as the telegraph and the expansion of the railroad system. Furthermore, these developments became so revolutionary that they had a significant impact on the institutions of that time; the norms for the size of firms and corporations had to change in order to match the impact of technological and industrial innovation (Nelson, 2006: 8). At the same time, significant changes were also occurring with regard to the rules and institutions of economics; the work of influential figures such as classical economist Ricardo led to a blurring of lines between the growing financial sector and the real economy, i.e. the production of goods and services (Reinert, 2013: 59). The last part of the 19th century was plagued by a number of financial crisis and social unrest, as a result of a sharp increase in economic inequality. The rich became excessively rich, through the massive accumulation of wealth as a result of the growth of corporations, and the poor were left behind, plagued by wage stagnation and very little chance of co-optation into the groups with higher wages. This would lay the foundations for a massive uprising against the dominance of finance in the economy and eventually lead to the welfare state and the regulation of finance after the Great Depression of the 1930s (Reinert, 2013: 57). The catastrophic effects of the Great Depression led to a strong regulation of financial institutions. It was believed that they led only to destruction and chaos, and created inherently unjust systems that enriched a few but impoverished many (Boettke, 1997: 16). Later the study will demonstrate how the financial crisis of 2008-2009, defined as the Great Recession, did not lead to such a drastic systemic and normative change as the world experienced in the 1930s (Helleiner, 2010: 619).

Lenin observed how small capitalist elites, located in a number of developed countries, controlled the majority of the world's resources (Lorimer, 1999: 9, 10). He was inspired by the works of Hilferding (1910), who dealt specifically with the financialisation of capitalism and the merging of industry capital and banks. Furthermore, his work also covered the recurrence of crises in capitalist economies. The evolution of capitalist economies can be viewed as consisting of periods of prosperity and crises; moving from one phase to another is marked by a crisis (Hilferding, 1910). In a capitalist economy the owners of production are concerned with the link between production costs and the market price, making the level of profit the determination of how they invest their capital (Hilferding, 1910).

The developments in economic and political activity since 1870 are central for understanding the financialisation of the capitalist system today. Berkowitz and Hobsbawm (1977: 13) wrote extensively on the development of the capitalist system and the advancement of Western

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societies. Before covering the period that Lorimer calls the Age of Empire (1870-1914), they wrote on the developments after 1848, which set the stage for the dominance of private enterprise. The 1850s became known as the Great Boom; the world's leading economy, Great Britain, experienced a massive surge of exports. A number of industries, such as the cotton industry, grew at double rate during the 1850s compared to what it had done in the first half of the century (Hobsbawm, 1977: 44). Cheap capital and a sharp increase in prices fuelled capitalist development. A number of new companies were established during this period, most notably Crédit mobilier, a powerful financial institution which became the period's symbol of capitalist development (Hobsbawm, 1977: 45). The French political revolution promoted the freedom for many political groups in Europe, but it was overtaken by the British industrial revolution and the advancement of capital (Hobsbawm, 1977: 15). The dominance of Great Britain and other powerful nations would stretch beyond the borders of Europe through an era of imperialism and colonisation during the Age of Empire (Hobsbawm, 1989).

The capitalist system was exported globally through the British industrial revolution, assisted by the political revolutions in France and the USA, where the expanding liberal bourgeoisie propagated capitalist development. It was in this period that the world market first became a reality (Hobsbawm, 1989: 9). The Age of Empire was also the Age of Enterprise; large corporations were established between 1880 and 1914, and a clearly visible hand replaced the Adam Smith’s principle of the invisible hand. It was the corporations that now organised the "free" market (Hobsbawm, 1989: 45). However, world war and global depression would stop the liberal ideology from dominating the global system after 1914. An era of fascism replaced liberal doctrines and the world became ever more intensely concerned with national borders, world war and the building of strong national states. It was not until the beginning of the 1970s that finance would return as a dominant force in the global economic system.

The next section will cover the concept of financialisation of the capitalist system and casino capitalism in order to illustrate how economic activity has increasingly become more risk-oriented (Strange, 1997: 3). The section following that will provide empirical data on how the rules and material structures of finance became increasingly dominating in the international system in the form of multilateral institutions governed by neoliberal forces in the USA. Key elements in this process are Western aid provided to developing countries, and the increasing globalisation of the economic system (Stiglitz, 2003: 13). Parallels between the contemporary system of finance capitalism and the system of the late 1800s can be drawn by looking at the dominance of major figures within commercial and investment banking, such as J.P. Morgan

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– who founded what is now a major banking conglomerate called JPMorgan Chase (Foster & McChesney, 2009: 18; Acemoglu & Robinson, 2012: 320).

Financialisation and casino capitalism

The proponents of financial economics argued that a more financialised economy would introduce greater stability and stimulate more growth in the international economy. Money could be made in trade of credit, which laid the foundation for the international financial system (Strange, 1998: 6). Bankers and investors also increasingly started to gamble and speculate on the potential changes of exchange rates and interest rates. The intellectual background of finance capitalism can be linked to the work of Milton Friedman, an influential economist within a new version of the classical approach to macroeconomics i.e. neoliberalism at the University of Chicago (Madrick, 2008). The supporters of neoliberalism were sceptical of the role of the state in the economy and argued that the traditional understanding of macroeconomic policy, which was aligned with the Keynesian approach, did not create the best conditions for economic growth (Bateman, Toshiaki & Marcuzzo, 2010: 3). Politicians such as Margaret Thatcher and Ronald Reagan found inspiration in the theories of Friedman, and he is said to have been highly influential in bringing about the process of deregulation that occurred in the decades that followed Reagan and Thatcher coming into power (Madrick, 2008; Bateman, Toshiaki & Marcuzzo, 2010: 3). Deregulation and fundamental changes to macroeconomic policy laid the foundations for the financialisation process that occurred in the 1980s and 1990s. The next section will examine more closely the concept of financialisation and how it came to represent a new form of capitalism, where finance increasingly became the main engine for economic growth.

In the new system production and labour suffered at the expense of the growing financial sector of the economy; money capital or finance had only one goal and that was to make more money. It would do so through financial instruments such as stocks, bonds, funds, futures and other assets. Deregulation allowed financial institutions to accumulate massive amounts of capital and then recirculate it so that markets could grow and grow (Magdoff & Sweezy, 1982: 5; Goldstein, 2009: 453). Already in the 1980s Magdoff and Sweezy touched upon the unpredictability that so many scholars associate with finance capitalism when they warned that financial markets might grow to be so big that they would start to live a life of their own (1982: 6). In the 19th century, the surplus created by the capitalist system was reinvested into production, benefitting both the bourgeoisie and the non-working classes. However, the

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capitalist system demanded more and more surplus to keep growing, and finance increasingly became the force that was able to determine how fast the economy should accumulate wealth at the expense of labour's power to influence its own work pace (Goldstein, 2009: 454, 455).

Magdoff and Sweezy (1983) characterise the international money market as the nerve centre of the global capitalist system. It is through monetary economics and banking that the most powerful nations and financial elites produce and reproduce their power over the rest of the world (Magdoff & Sweezy, 1983: 1). The authors also cover how the foundations were laid for the return of finance with the change of hegemonic power after WWII – the USA created a world order based on liberalised trade through tariff and barrier removal, and this policy was enforced through the powerful international institutions: GATT, the World Bank and the IMF (Magdoff & Sweezy, 1983: 8). "Hegemonic power" refers to the dominance of economic forces in the capitalist system on a political, intellectual and cultural basis. Hegemony is enforced through consent rather than force, but the use of force is never off the table (Cox, 1999: 4, 7). In other words, US hegemony in the world refers to the system of global governance; political elites are allied with corporate elites through a range of international networks and organisations (Cox, 1999: 12). The IMF, the World Bank and GATT would soon reflect the power and rules of global *financial* governance (Scholte, 2004: 214). This was an era when the most powerful actor in the global economy was the state, and the most powerful state of them all was the USA. After WWII the victors had to establish a new world order. Bretton Woods was more than a system just to make the dollar the dominant currency in international trade, otherwise known as the Gold Standard because it was tied to the price of gold; it was a system that promoted the ideology of "embedded liberalism" (Helleiner, 2010: 620). During this era the international financial institutions and banks were an important part of the global economy, but part of the ideology of liberalism was the state's ability to intervene in the economy and prevent it from spinning out of control (Helleiner, 2010: 620).

However, the Bretton Woods system started to disintegrate in 1971 and by 1973 the system had collapsed and opened the possibility of floating exchange rates. Strange (1997) marked 1973 as a defining year for the transition to casino capitalism, with the devaluation of the dollar, the decision to leave it to the market to determine exchange rates, and the sharp increase in the price of oil. Floating exchange rate regimes would stimulate the export industry and were introduced especially with regards to bringing developing countries into the global market (Germain, 2010: 54). One of the most important tasks of the IMF was to

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encourage developing economies to have an export-driven economy and at the same time have no controls on the flow of capital, both into and out of the country (Germain, 2010: 54). With the removal of fixed exchange rates came the expansion of credit; unlimited amounts of credit could be used to fund speculation in emerging markets, encouraged by the IMF (Amin, 2012: 65). Finally, the endless amounts of credit also led to the rise of a number of bubbles that would wreak havoc on stability in financial markets (Amin, 2012: 65). These changes should be understood in their historical context, which entailed the major shift in ideology that occurred in the 1980s; the world economy entered into a new stage of capitalism. Deficit spending on welfare was over when Reagan came to power and the interest rate level was raised significantly. The belief in the market as the most capable regulator reached new heights and debt-speculation became an important engine for economic growth (1989: 2). The IMF became immensely powerful in structuring developing countries' economies because of its ability to provide massive economic assistance for stimulating growth, but this assistance came with rigid conditions which echoed the rules of finance: deregulation and the removal of trade barriers, so that international capital could flow in and out of developing countries, and thus move more freely in the global system (Pastor, 1987: 249; Stiglitz, 2003: 14). The next section will look at the hegemonic and imperialist aspects of the neoliberal ideology.

The work of Strange provide readers with a deep analysis of the structures behind the capitalist system, including the way capitalist values in the US have been channelled through academia, monetary policies, military alliances, commerce and technology (1982: 481, 482). The USA has used these channels for imperialistic purposes without physically colonising countries like the empires of the old did in earlier centuries; Strange defined this as non-territorial imperialism (1982: 482). Furthermore, her analysis of American foreign policy during the 1970s and 1980s produced a most interesting observation: the belief that the pre-1971 world was a stable and predictable one where economic shocks did not exist existed largely in the minds of Americans, but absent in most countries outside of US borders. That the world was a better place prior to 1971 was a view highly exaggerated by the Americans. Additionally, the so-called decline of US hegemony has also been greatly exaggerated; the dollar was and remains the dominant currency, free market capitalism was still the only game in town, and no other state could match the size of the US economy. The only reason for suggesting that the power of American authority was in decline was the fact that that very same authority had transferred power to free market operators, so that they could go after profits in the integrated world economy. US power became more privatised, but not less

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hegemonic (Strange, 1982: 482, 483). The study shows that this was a time where the foundations for the future global financial governance were laid and the rules of finance began to be adopted by international institutions.

Strange defined the system of finance as a system where one can create, buy and sell credit (1990: 259). In her article on the differences between US financial power and Japanese financial power, Strange focused on the role of information technology. Developments in the information and technology sector can be closely connected to the development of the global financial system; agents in finance and in governments have benefited from the changes made in communication systems (Strange, 1990: 259). The use of computers, telephones and fax machines meant dramatic reductions in communication costs for bankers and traders. It also meant that physical borders and difference in time zones were of less importance – technological innovation reflected financial innovation (Strange, 1990: 263). This article is significant because of its detailed description of how the already integrated world economy experienced a much higher degree of integration with the developments in financial activity; national markets still had physical distance between each other, but the developments in information and communication technology made them function as one big market (Strange, 1990: 260). A number of consequences of these developments are outlined by Strange; the power of state and governmental actors in the economy has slowly but surely been transferred to market actors; banks' regulation of the money supply has changed and savers were now able to move money between borders at a greater rate and more rapidly than before. Borrowing money also became easier, but also riskier (1990: 260). Competition increased as the financial system became more and more global, raising the stakes for everyone involved in the game (Strange, 1990: 261).

As a result of important changes in the communication and technology industry, production has gone through a phase of internationalisation. By that Strange meant that goods and services were now increasingly being produced in several countries at once and aimed at the world market rather than the national market (1994: 210). In charge of this type of production are the transnational corporations; there has been a major shift in the way that economics is managed. The economic base has traditionally been located within nation-states, but as a result of technological innovation it is now the transnational corporations that dominate the system of production, reducing the role of the nation-state in the economy (Strange, 1994: 211). As a result of the technological innovations, the diplomatic system has become trilateral: governments have had to bargain with transnational corporations for their economic

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success because these corporations were controlling the access to new technology (Strange, 1994: 211). Additionally, Strange used the example of technology to illustrate how capital intensive the work market was becoming; technology became obsolete and needed to be replaced at an increased rate, which made it more difficult to earn income from it (Strange, 1994: 211). The growing importance of finance and the globalisation of the economy have had serious implications for the structure of the nation-state; concepts such as sovereign rights and duties have changed because of these structural changes. As Strange wrote (1994: 212):

> To argue, as I do, that structural change in production especially, but also in finance, is changing the nature of the relation between states, is not to say that states are obsolete, or that multinationals are replacing them. It is only to say that these structural changes in the international political economy are changing the character of the state and of the state system – and changing them rather rapidly and fundamentally.

Strange (1995: 57) argued that states were in danger of becoming hollow institutions in the world system, i.e. endangered by the increased dominance of the financial sector of the capitalist system. States find themselves competing with multinational firms for contracts on their own territory. Foreign firms, or transnational corporations, have become so powerful that they can rival the seemingly powerful economic player that is the state because they can often offer better technology and more capital (Strange, 1995: 59). Finance is a double-edged sword – while the financial sector has been necessary for the states to improve their economic growth, it has also been a source of instability, turmoil and destruction (Strange, 1999). This has especially been the case for the states in the developing world. According to the rules of finance, greed is viewed as unequivocally good – for finance it is equally possible to make a profit by destroying a country's economy as it is to build it up (Reinert, 2013: 62). An example is the connection between the currency speculation that was allowed in the East Asian economies in 1997 and the IMF's crisis management that included bailing out the international banks which had provided the loans to these economies, leaving the East Asian countries with very little to take care of their own impoverished populations (Stiglitz, 2003: 95). The connection between debt crises and financialisation will be touched upon in the following section through the study of the two most powerful post-WWII international institutions, the IMF and the World Bank. The Westphalian system, or the modern state system, has proven to be unable to keep up with the technological innovations made in the private sector, and thus unable to manage the financial markets in the global economy.

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IMF and the World Bank: global governance through aid

Both the IMF and the World Bank are products of the post-WWII Bretton Woods system; however, since the end of Bretton Woods in 1971 the roles of these two institutions have changed, especially that of the IMF. During the Bretton Woods era it was charged with assisting states with balance-of-payment problems. An overview of the changes the IMF and the World Bank have gone through is provided in *Perpetuating Poverty: The World Bank, the IMF and the Developing World* (1994) edited by Bandow and Vásquez. After the international system of fixed exchange rates ended, the IMF's role as a lender to governments became intensified (Bandow, 1994: 16, 17). Its mission goals are to help improve governments' economic performance through a variety of policy conditions, and make sure that they uphold their agreements on loan repayments (Bandow, 1994: 17). At first neoliberal forces in the USA were highly sceptical of the Fund's influence in the global economic system, but with the Third World debt crisis that erupted in 1982 this was all about to change. The IMF ensured that major US banks reaped enormous profits when they provided credit to the debt-ridden Third World countries, because that credit was also used to pay off external creditors. The Fund also provided negotiation, information and enforcement services to the creditor banks free of charge (Vaubel, 1994: 44, 45). It should be noted that the IMF is different from private banks in several aspects; the most important one is perhaps that it is politically dependent on the states it lends to, since it is funded by member states in the first place (Vaubel, 1994: 47).

Created in 1944 the World Bank's role in the global economy was to provide governments with funding for infrastructure and other rudimentary investments. This was its role through the 1950s and 1960s. However, during the presidency of Robert McNamara major changes were made to the structure of the Bank (Bovard, 1994: 59). It was based upon these changes that Bovard (1994: 59) launched harsh criticism of the World Bank's role in structuring economic aid for countries in the developing world; tasked with improving domestic economies, it did nothing but enrich corrupt politicians and contribute to the suppression of the countries' citizens. Instead of making the situation for such countries better, the Bank's actions led to a worsening of their situation. Furthermore, the economic assistance provided by the Bank directly financed the brutal suppression of political activity in countries such as Vietnam and Indonesia (Bovard, 1994: 60, 61). Bovard went into detail describing how South Vietnam, the losing side in the Vietnam War, suffered under the new North Vietnamese authorities' collectivisation policies, financed by the World Bank (Bovard, 1994: 60, 61).

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Finally, Bovard also provided a description of the Bank's failures in Africa by supporting Marxist regimes in Ethiopia and Mozambique. To sum up, the Bank had hindered private enterprise from developing in Third World countries and it had been directly financing anti-capitalist policies across the developing world; one example would be Julius Nyerere's rule in Tanzania (1994: 60). Moreover, Bovard also attacked the Bank for providing Iran with economic support, a state that he characterised as "…the world's leading financier and promoter of terrorism" (Bovard, 1994: 69). It is in these last statements that Bovard made it clear what his own ideological affiliations were at the time. It should also be noted that one of the favourable reviews of *Perpetuating Poverty: The World Bank, the IMF and the Developing World* was written by Alan Walters, personal adviser to Prime Minister Margaret Thatcher (Bandow & Vásquez, 1994). Prime Minister Margaret Thatcher was widely known as one of the most enthusiastic supporters of neoliberal policies and finance capitalism.

The book edited by Bandow and Vásquez provides a substantial overview of the development of IMF and the World Bank as multilateral institutions; however the authors neglect to mention how the Fund and the Bank became tools for American neoliberalism and finance capitalism through its lending and austerity policies. The editors call for an scaling back of Western multilateral aid agencies, but at the same time believe that countries in the developing world are able to and should develop "free markets and political pluralism" by themselves, only pointing out that the West should not get in their way (Bandow & Vásquez, 1994: 12). It seems quite naïve to think that as long as developing countries implement free market capitalism, they will be able to pull themselves up from the dirt. What has been disguised as aid to poor governments has been a systematic process to implement neoliberal ideals, capitalism and finance in order to further promote and protect the values of the West (Sogge, 2002: 2, 3). As the neoliberal forces in the USA and the UK were gaining power in both the political and the economic sectors, major changes occurred in the global economic system, as well as the way that aid and development strategies were managed. The next section will deal with the close link between aid and finance capitalism.

Pauly (1998) wrote on the financialisation of the IMF and the World Bank, and ultimately the financialisation of aid. He also provided a more critical analysis than Bandow and Vásquez in which he focused on the increased surveillance capability of the IMF, and how that connects to the increased power the Fund acquired over its member states (Pauly, 1998: 108). The Fund was a key player in the liberalisation process of domestic economies during the late

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1970s and early 1980s; because of its role as a monitor of international exchange rates and general financial oversight, member states had to consult the Fund with regard to intervention in economic affairs, introducing restrictions on capital flows and other policies connected to financial matters. Because of its focus on international capital flows and oversight of national economies' balance of payments, it was only natural that the Fund would play a major role in managing the debt crisis that occurred in the developing world in the 1980s (Pauly, 1998: 109, 110). The IMF's role in the financialisation of the capitalist system has been significant. Post-Soviet states and developing countries in need of financing in order to kick-start their economies made it even more powerful because of the seal-of-approval status that the Fund was able to provide to new states, which in return signalled foreign private investors about a friendly business environment (Pauly, 1998: 114). Additionally, when states asked for large sums of money to finance economic development, it gave the Fund leverage to demand reforms in national policies in order to make them more favourable to private enterprise, i.e. a financialisation of developing economies (Pauly, 1998: 115). Finally, the increased legitimacy of the IMF provided the USA with the engine it needed for pushing its agenda onto the world stage. Changing the structure of the IMF and the World Bank was one of the most important developments for the proponents of finance capitalism. Through monetary and economic surveillance, countries in the developing world were subjected to harsh austerity measures, or market fundamentalism as some neoliberals defined it, in order to create a friendly environment for private enterprise (Sogge, 2002).

In an interview with the *New York Times,* Jeffrey Sachs described the IMF's role in developing countries as "almost as a surrogate government in financial matters" (Richardson, 1998). Moreover, it can be, and has been, a *destabilising* factor in several of the crises that have befallen developing countries; the harsh austerity measures implemented by the IMF could be seen as throwing oil on an already burning fire (Richardson, 1998). This is what happened in East Asia; as a response to panicking investors pulling out of East Asian markets, the IMF's actions further increased the panic when it raised interest rates sharply, shut down struggling banks and forced budget cuts. This was done in Thailand, then in Indonesia. The result was that investors became even more afraid than before i.e. worsening the economic situation (Richardson, 1998). To make the situation even more precarious for the developing world, the loans provided by the IMF would be extremely difficult, if not impossible, to pay back because of the strain put on economic activity. Additionally, those loans would also be

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used to pay off the foreign creditor banks that had provided the excessive loans to begin with, in the climate of financial deregulation (Richardson, 1998; Radelet & Sachs, 2000: 117).

Raffer (2001) provided a further critique of the IMF's involvement in the developing world in his article on how damaging IMF's debt relief programmes actually have been to Third World countries, and how deliberate they have been to further strengthen the IMF and thus the USA. Like Sachs, the author pointed out that the IMF did not enter the stage after the debt crisis of 1982 had started; it had been working behind the scenes from the very beginning, directly involved in the process that created the crisis (Raffer, 2001: 1). Consequently, it created worse conditions for poor countries in the developing world because they had been unable to service their debt, and that in turn had severe consequences for human rights conditions in several countries, such as Nigeria (Raffer, 2001: 6, 7). The debt relief plans were also a game played by the IMF when the Fund provided debt relief for debt-ridden Third World countries; it was forgiven debt that realistically could never have been paid back in the first place. In other words, it was not much of a relief in real terms, because "Economically, one cannot lose money one cannot get anyway" (Raffer, 2001: 2).

Policies concerning privatisation, liberalisation and deregulation, in line with the Washington Consensus, were to be implemented as soon as possible in the developing countries. In line with the neoliberal ideology, the IMF assumed that when the public authority pulled out of sectors in the economy where it did not belong, the economy would start to grow shortly afterwards (Stiglitz, 2003: 54, 55). Aid and debt relief were slowly but surely becoming part of the Washington Consensus, i.e. economic assistance was given in return for less public control over business and international capital flows. Finance and capitalist power were concealed through a fog of aid-speak; money-laundering outfits were concealed in banks, while individuals enriching themselves through political contacts were defined as "entrepreneurs" (Sogge, 2002: 3, 19). In the chapter *Money Talks* Sogge used the theory of constructivism to explain the linkage between neoliberal ideology and aid; through the institutions of the IMF and the World Bank foreign aid was distributed together with a specific set of ideas. Constructivists understand power and the influence of certain policies through the dominance of specific norms and ideas. International politics is an arena for the spread of ideas – this is how a constructivist would explain the growth of neoliberalism and finance in international politics, because the USA used its economic, political and cultural power to implement and shape national and international structures and institutions (Wendt, 1999: 96; 2002: 142, 143). The IMF was initially tasked with ensuring that governments in

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the developing world had full employment high up on their list of priorities, in line with the Keynesian approach to economics, which believed that free markets had a tendency to create too much unemployment. Furthermore, the IMF also played the role of a global creditor that could finance government expenditures when national governments were unable to (Stiglitz, 2003: 196). However, major changes were about to take place in the IMF's organisational structure. The table below illustrates Keynes's conception of the IMF and the contemporary IMF system.

Table 2 Norm cascade (Stiglitz, 2003: 196, 197)

Bretton Woods 1 norms	Bretton Woods 2 norms
Post-WWII Keynes era 1945-1970s	Washington Consensus 1980s - present
Interventionist – prevent market failure • Promoted full employment • Provided liquidity for government expenditures • Fixed exchange rates through Bretton Woods	Laissez faire – unleash market forces • Suppress inflation • Deregulation • Floating exchange rates

The IMF was certain that the market would take care of every need and therefore state-owned enterprises such as steel-mill production, agriculture, etc. would be replaced immediately by a better private actor (Stiglitz, 2003: 55). Moreover, the IMF made it clear that markets in developing countries had to be liberalised in order for production to become more efficient and more jobs created. Therefore, the IMF ordered that inefficient industries that were allowed to operate as a result of protective measures should be closed down. According to the IMF, because of the removal of trade barriers, the workers in those industries had to be moved and put to better use in more efficient production sectors. However, this did not happen in many cases, which in turn created high levels of unemployment; however inefficient the industries were, they at least provided people in the developing countries with work and hence taxable income (Stiglitz, 2003: 59). Deregulation in the form of tax reduction, lowering inflation and attracting foreign investors provided the last piece of the puzzle for the Washington Consensus. The latter, foreign investment, made several developing countries such as Malaysia, China and Singapore dependent on foreign entrepreneurship for their technological innovations (Stiglitz, 2003: 72, 73).

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Third world debt crisis, globalisation, the Clubs and the IMF

Lipson (1981) wrote on how states in the Third World struggled with massive amounts of debt during the 1970s, which led to an international debt crisis in 1982, originating in Latin America (Frankel & Schmukler, 1998). As a result of a sharp rise in interest rates, they were unable to manage the loans they had been given by the developed countries. More importantly, Third World countries had also taken up loans in major Western banks – a development that illustrates the rise of finance on the global stage. The norms of finance reached the cascading stage through the globalisation of the 1970s and the Third World Debt crisis of the 1980s (Lipson, 1981: 605). Because of the unregulated system of international relations, Third World countries had no choice but to comply with the private banks' demands. Insolvency and refusal to pay back the debt owed could mean isolation from the global market place. However, the banks' demands were met with the help of the IMF; the Fund gave additional loans to Third World countries and assisted them in drawing up an economic programme together with the private banks. The economic programmes often meant a belt-tightening situation for the Third World countries (Lipson, 1981: 606). The private banks and creditor countries have organised their demands through multilateral bodies called the "Paris Club" and the "London Club". These two bodies have been in charge of debt-rescheduling agreements for the Third World countries that had taken on massive amounts of debt during the lending boom of the 1970s. Furthermore, the Paris Club and the London Club can also be seen as the bodies responsible for the coordination and organisation of international finance in the global capitalist system (Rieffel, 1985: 1). The dynamics of international debt management can be described as a three-ring circus; in the centre one finds the IMF and its direct negotiations with the countries in debt; in the second ring the talks between creditors countries and debtor countries take place; and the last (outer) ring is where negotiations between debtor countries and private creditors, such as commercial banks, take place. The Paris Club can be found in the second ring, while the London Club can be found in the third ring (Rieffel, 1985: 2).

Members of the Paris Club have predominately been countries in the Organisation for Economic Cooperation and Development (OECD), although there have been other countries that have acted as creditors from time to time: Argentina, Mexico and South Africa (Rieffel, 1985: 3). While the Paris Club consists of officials from OECD countries, it is not a formal institution such as the IMF. It is based on a set of principles that have not been written down in any formal charter. The London Club involves all the commercial banks that have provided

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economic assistance to countries in the Third World (Rieffel, 1985: 3). For several decades the Paris Club has been one of the most influential international organisations, but most people know very little about it. Because its fluid (lack of) structure, with no charter, fancy office or fixed membership, it has been allowed to operate under the radar. Traditionally, the Paris Club is viewed as a collection of inflexible debt collectors whose main focus has been on making sure that the debt has been paid. Bradshaw and Huang (1991) elaborated on the consequences of asking the IMF for assistance; to be worthy of acquiring an "acceptable credit risk" rating, Third World countries had to comply with the financial institutions' demands on austerity measures; privatisation, deregulation in the form of removing trade barriers and tariffs, and the freezing of wages – these are components of the IMF's "structural adjustment" programmes (Bradshaw & Huang, 1991: 321, 322).

Helleiner (1992) called for a reduction of the IMF's and the World Bank's influence on the structure African countries' economic systems. He argued that the IMF had been guilty of extracting resources away from the continent, while the World Bank had neglected the social sphere of the adjustment programmes: absolute poverty reduction and implementation of anti-poverty policies (Helleiner, 1992: 779, 780).

The demands from the private and public sector of the West created even bigger problems for many countries in the Third World. As a consequence of the huge amounts of debt, countries in Latin America struggled to attract investment, as the profits made in the domestic economy would go to service the repayment of loans to creditors (Kaminsky & Pereira, 1996: 5). To conciliate the creditors, Latin American countries have gone through major fiscal adjustments in line with the austerity measures pushed by international finance; more private enterprise, lowering of trade barriers, becoming more export-oriented and implementing currency convertibility. Kaminsky and Pereira (1996: 22) viewed these as positive developments on the whole, because they argued that this would attract more investment to Latin America. However, the major adjustments also illustrate the power of international finance and how the financial elite, through informal networks and formal institutions, have been able to make Third World countries dependent on economic and financial support from the West. This has served to enrich the financial elites in the West as well as implementing the neoliberal agenda on a global scale (Bradshaw & Huang, 1991: 336). In addition, the Paris Club was criticised for not being transparent enough in its dealing with debtor countries (Callaghy, 2004: 14). With further debt crises in Mexico, Uganda and Bolivia in the 1990s, changes were made to the way poor-country debt was managed; the new model, called Highly Indebted Poor

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Countries (HIPC), was created in 1996 (Callaghy, 2004: 6, 7). Creditor countries, with pressure from social democratic countries in Scandinavia, became more debt-relief oriented (Callaghy, 2004: 24). This resulted in more focus on poverty reduction and sustainability, and a shift in weighting from the Paris Club debt regime to the more transparent organisations of the IMF and the World Bank. However, the change would prove to have limited effects for the poor countries and in some cases be disastrous (Callaghy, 2004: V).

Kapur (1998) asked whether the increased involvement of the IMF in connection with debt relief was a curse rather than a blessing. He used the case of Mexico to illustrate the point he was trying to make. In 1994 Mexico experienced a deep crisis in its balance of payments. Devaluation of the Mexican peso and herding of hard currency were some of the consequences of this imbalance in financial assets (Calvo & Mendoza, 1996: 235). On a larger scale, what happened in Mexico can be seen as a consequence of the global financialisation and neoliberal dominance; Mexican authorities had, since 1988, privatised and deregulated large sectors of the economy in order to expand growth outwards. Changes of this magnitude were not driven only by the Mexican authorities themselves, but heavily encouraged by US authorities through the North American Free Trade Agreement (NAFTA). Large "runs" against financial assets led to a complete meltdown in the financial sector in 1994, causing a financial crisis. This was a result of asset-dumping by foreign investors, who owned a significant portion of the country's debt, causing Mexico to head into a deep recession by the end of 1994 (Calvo & Mendoza, 1996: 236, 248). The issue of international borrowing constraints was explained by Atkeson and Rios-Rull using the case of Mexico; subsiding foreign investment led to a crisis in capital for the Mexican authorities, so its central bank had to sell off its foreign exchange reserves in order to finance the increased consumption that occurred after the implementation of privatisation and deregulation policies (1996: 331, 332). Speculative attacks on the Mexican peso were also a significant component in the financial crisis, which was covered in depth by Sachs and Tornell (1996: 266). However, the authors of this article fail to touch upon the financial globalisation aspect of this crisis, and the way a environment was created by international finance for currency speculation through the liberalisation of trade and high-intensity capital flows, as Stiglitz did later when he explained the financial crisis and the IMF's involvement in it (2003: 129). Furthermore, the changes Mexico instituted in its economic sector, i.e. increased privatisation and deregulation, were changes that were applauded by both Wall Street bankers and the IMF (Kapur, 1998: 119, 120).

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The rise of the IMF and the World Bank on the international arena represent the growing importance of financial institutions on a global scale. Scholte and Schnabel (2002, 2004) have written extensively on the link between the growth of financial institutions, global governance and civil society. In their work they expressed concerns with regards to the negative impact global financial institutions can have on civil society. Pressure groups from various civil societies have pushed for greater transparency for these financial institutions; the Paris Club set up a public website in 2001, the World Bank translated its Country Assistance Strategy for Brazil into Portuguese after demands from a Brazilian pressure group (Scholte & Schnabel, 2002: 218). According to Scholte and Schnabel, finance is a strong component in the concept of globalisation; the removal of trade barriers, liberalised markets and diminished capital control have made internationalisation of finance possible (2004: 3). Wade and Venoroso (1998: 11) used the IMF's involvement in 1997 in South Korea to show how the financial institution involves itself in economic systems of non-Western countries in an attempt to westernise economic activity without actually telling the countries what the goal really is. This is done through the closure or total renovation of what the IMF considers to be malfunctioning financial institutions, opening the market to foreign financial institutions and demanding that domestic banks adopt Western standards of banking. Furthermore, governments are encouraged not to intervene in commercial bank practice, while at the same time calling on the governments to remove themselves from the lending business (Wade & Veneroso, 1998: 12). The debt crises of 1980s and 1990s, beginning with the one in Latin American countries in 1982, was used by the IMF to implement its controversial "structural adjustment" programmes (Kapur, 1998: 117). The discourse around structural adjustment has been on whether the programmes actually assist the debtor countries in achieving economic growth and improved living standards for their citizens; on the political left claims have been made that the IMF only serves the interests of the policymakers that have been responsible for creating the situation that creditor countries in the Third World, especially African countries, found themselves in at the time. The other side of the coin shows economic growth for Asian countries such as South Korea, Thailand, India and Indonesia during the 1970s and 1980s (Kapur, 1998). But as Wade and Veneroso (1998: 12) point out, growth had to come through a strict adherence to neoliberal policies.

The World Trade Organisation (WTO)

Together with the IMF, the WTO was a tool used to create further economic integration between the world's regions through liberalisation of trade. Its establishment in 1995 signified

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an era of internationalisation, and international financial markets once again became highly integrated to the point they had been at prior to WWI (Katzenstein, Keohane & Krasner, 1998: 684). While the IMF is a financial institution, the WTO is an institution based on agreements made through diplomatic channels. It offers access to domestic markets through these agreements. These institutions have been instrumental in reinforcing US dominance and neoliberal ideas across the globe (Chorev & Babb, 2009: 461). Although they wield tremendous power, they have experienced moments of severe crises that opened them up to legitimate criticism (Chorev & Babb, 2009: 463). In an article for *Z Magazine* Chomsky (1997) wrote that the end of the Cold War was both a victory for democracy and for open markets. The Clinton Doctrine focused on consolidating these two factors. However, Chomsky understood these two concepts as being under attack from malevolent forces – corporate power had become more powerful than democratic power, and market institutions lacked transparency. What was being sold to the public as freedom and prosperity were in fact "Reaganesque rugged individualism" (Chomsky, 1997). Furthermore, it was being sold through multilateral institutions such as the WTO.

Chomsky (1999) placed the WTO at the centre of his critique of the neoliberal forces in the USA by characterising the multilateral trade organisation as a tool for shoving neoliberal policies down the throat of every country that would want to participate in global trade. The roots of the organisation can be dated back to the agreements made in the 1940s in an attempt to create an organisation that could regulate international trade – with the intention of ending the protectionist policies that were so widespread in the 1930s. Additionally, it was to be the third addition to the Bretton Woods "club", which already included the World Bank (formerly known as the International Bank for Reconstruction and Development) and the IMF, setting the stage for global economic governance (Kern, 2003: 5, 6; Evans, 2005: 663). Through this global economic governance, a model was created for the emergence of neoliberal norms. It is in the powerful institutions such as the WTO and the IMF that the prevalence of neoliberal norms is strongest (Murphy, 2000: 797).

The IMF's role in the Argentine economic crisis

What happened to Argentina's economic sector serves as an example of how the Third World debt crisis was clearly precipitated by the Washington Consensus. As a result of deregulation, social safety nets were dismantled; leaving the general population is a precarious situation for the economic crisis that occurred in 2001 (Wylde, 2011: 436). Huge loans from American

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banks were pushed onto Argentina, a country ruled by a military junta, which received major financial support from commercial banks (Bulow & Rogoff, 1990: 41). Strange (1987: 569) used the example of Argentina to counter arguments of diminished American power in the global financial system. Unable to finance its own debt, Argentina's economy plunged into crisis, while the USA could use its own currency to service its debt and at the same time force all major banks in the international system to cater to its needs (Strange, 1987: 569). Argentina, on the other hand, sank into massive debt, which would have grave consequences for the country's economic performance for years to come. Together with countries such as Chile, Brazil, Peru and the Philippines, Argentina owed commercial banks and foreign governments around $300 billion dollars in 1989 (Bulow & Rogoff, 1990: 32). A massive capital flight was one of the major components for what happened in 1988, when Argentina stopped repaying its debt, which in turn led to a near-collapse of the entire economic system during the following 18 months (Bulow & Rogoff, 1990: 37).

The role of the IMF in the Argentine economic crisis has been highly disputed, some identifying the international financial institution as the main culprit; while others argue that the crisis would have occurred regardless of IMF involvement (Akkerman & Teunissen, 2003: 12). The authors aimed to understand the Argentine economic crisis and the role of the global financial system from a political perspective rather than an economic one (Akkerman & Teunissen, 2003: 14). According to Rodrik (2003: 16), no other country in Latin America undertook such strong neoliberal reforms to its economy as Argentina did during the 1990s. Another aspect of the crisis was how tightly knit the world's financial markets had become; the crises in Mexico, East Asia and Brazil had a devastating effect on the Argentine economy, illustrating the effects of neoliberal globalisation (Rodrik, 2003: 17). Furthermore, a self-fulfilling prophecy broke the camel's back; creditors feared that Argentina would not honour its debt commitments and default on its debt, so they demanded a huge interest rate premium, ensuring the very default they feared. According to the IMF, there was only one way to reduce the troubles the country faced, and that was through harsh austerity measures on an already struggling economy with an high unemployment rate (Rodrik, 2003: 18). Argentina's economic recovery started when it reverted back to a production-oriented economy, reducing the influence of finance (Wylde, 2011: 439).

According to Ocampo (2003: 25), the IMF made a number of incorrect assumptions when it came to handling the crisis in Argentina. The first assumption was made in connection with avoiding a "moral hazard", which in economic terms means assuming that sustained lending

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and bailout lead to careless lending and additional crises (Akkerman & Teunissen, 2003: 13). As a result, in its attempt to avoid a "moral hazard" the IMF enforced harsh austerity measures in the form of ensuring that both investors and the Argentine public sustained losses. The second assumption the Fund made was that it could avoid contagion spreading to other players in the region, i.e. avoid the economic crisis spreading beyond the borders of Argentina (Ocampo, 2003: 25). The incompetence of the Argentine authorities in handling the economy also needs to be accounted for; however, there is little doubt that the international financial community played a significant role in creating the conditions for the collapse of Argentina's monetary and financial system (Ocampo, 2003: 25, 26). With regard to the first assumption about harsh austerity measures, Halevi (2002: 21) suggested that this was done deliberately by the Fund in order to sell Argentina's assets on the international market.

Asian flu

In 1996 international investors started to pull out of Asia as a result of a panic that had been caused by a distrust in the Asian countries' ability to repay their massive foreign debt; what started as a debt crisis turned into a development crisis as well, which resulted in severe stagnation in growth for the countries involved (Richardson, 1998; Wade & Veneroso, 1998: 4). The IMF can be held partially responsible for the financial meltdown that occurred in East Asia (Thailand, Malaysia, Korea, the Philippines and Indonesia) in 1997. Tasked with ensuring financial stability, the IMF precipitated just the opposite when it pushed for financial and capital market liberalisation. What was described as an economic miracle because of the absence of downturns in the newly developed economies turned into a disaster by 1997 (Stiglitz, 2003: 90). To make matters worse, the economic "miracle" could be attributed to governmental involvement in the economy, which led to heavy savings and well-founded investments, exactly the opposite of what the IMF preached (Stiglitz, 2003: 91). Reduction of poverty and increased economic growth occurred in spite of the Washington Consensus, not because of it. While the prescriptions of the Washington Consensus focused on intense liberalization of trade, focusing mainly on lower barriers to stimulate import, the East Asian countries opened gradually through their export-oriented industries. Parallel to the growth in the economy, the governments encouraged development in the education sector so that they could narrow the knowledge gap between them and developed countries, making them more competitive (Stiglitz, 2003: 92). However, the crisis could not be stopped; the pressure from the IMF had resulted in rampant financial speculation.

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The economies in East Asia experienced a huge inflow and outflow of *hot money*, defined as "…the flood of anonymous, ostensibly homeless savings – and the world's financial havens that help it disappear from the world's weaker economies…" (Naylor, 2004: ix). The free inflow of foreign capital or *hot money* was a direct consequence of IMF liberalisation policies. This created major problems, because huge amounts of capital also started to leave East Asia when investors got cold feet (Stiglitz, 2003: 129). These countries were too small to handle such widespread speculation. All the countries, except Malaysia, refrained from stopping all the speculative money that was leaving their shores, because they feared punishment from the IMF in the form of isolation from the international market (Stiglitz, 2003: 93). The fear expressed by these countries also shows the power of the norms connected to finance capitalism; these countries complied because they had a desire to show that they wanted to belong to a larger economic community: norm cascading (Finnemore & Sikkink, 1998). Globalisation has made the world smaller in terms of political, economic and cultural transactions. It has also made the world more unstable and prone to widespread financial and economic difficulties. The 1996-1997 debt and development crises that crippled Thailand, Indonesia, Malaysia, The Philippines, Taiwan, Honk Kong, Korea, Estonia, Russia, Brazil, Australia and New Zealand's financial systems attest to this fact (Wade & Veneroso, 1998: 3).

The post-9/11 world order

This section of the study will explain the decade of the 2000s through looking at the aftermath of the 9/11 terrorist attacks on the USA and also through examining a series of financial scandals involving major corporations. This is to illustrate both the power of the financial sector and the instability that the process of financialisation has brought into the global economic system. This section will also function as a gateway into the section dealing with the financial crisis of 2008. The scandals preceding the collapse of Lehman Brothers in 2008 will act as markers, illustrating the step-by-step process that would plunge the world economy into a major recession which would cripple economic growth for years to come. This study argues that the scandals that have occurred in the economic system – where billions and billions of dollars have ended up in the wrong hands as a result of mismanagement, fraud and concealment of losses – are products of the ideational structures created by proponents of finance capitalism.

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After the Cold War ended in 1991, the global system entered into a unilateral era where the USA encouraged other states to seek self-determination, and at the same time enter into a process of cooperative deterrence together with the USA in order to confront aggression in the international system. Moreover, the 1990s was the era of liberalised international trade; it saw the creation of the WTO and NAFTA as pillars to promote trade and the lowering of tariffs between countries (Ruggie, 1994: 554). This process continued into the 2000s, but this decade would be severely affected by one single event that occurred in the USA in 2001. The 9/11 terrorist attacks occurred at a time when liberalised international trade and finance were already important factors in the global economic system. However, as a result of the impact of 9/11, new developments were introduced into the US economy; fear and uncertainty now became important elements in determining the course of financial investments (Cooper, 2004: 3). Much of the economic activity in the USA went through a process of militarisation, where surveillance and security-oriented industries became an integral part of economic activity (Cooper, 2004: 3). The concept of *risk* became more important than ever. Terrorist activity of this magnitude led political and financial elites to believe that the world was now a riskier, more unpredictable place than it had been prior to the 9/11 attack. The next section deals with how political administrators claimed that the use of financial instruments were direct measures put in place to mitigate risk in the financial sector.

Combined with the process of deregulation, risk and speculation now guided much of the investment and production in the global economy (Cooper, 2004: 8). Economic risk and speculation come in the form of financial instruments such as derivatives, which according to the champions of finance were created to significantly reduce risk – Alan Greenspan argued strongly against the regulation of derivatives as he thought that they were useful in transferring risk away from those actors that should not be involved in risky transactions (Goodman, 2008). However, it has been suggested that derivatives were created for one purpose: to enrich the financial elite even further (Mügge, 2009: 516). During this era the US economy also experienced a significant rise in the number of *hedge funds*, where investors were consciously building protection or *hedging* themselves against risky economic activity (Cooper, 2004: 8). Why would investors champion the concept of risk when it was experienced as so volatile and destructive? The answer is that, according to the ideals of neoliberalism, risk is a vital component of the free market. Risk means that there are few or no measures in place to mitigate or *regulate* the impact of a failed investment. According to neoliberalism, deregulated capital has a high degree of risk, but forces free market actors to be

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innovative and efficient in the realms of both production and investment (Cooper, 2004: 9). Through a financialisation of the capitalist system, speculation about the future has become a determinant of what will be produced by industries (Cooper, 2004: 8). The elements of risk, speculation and deregulation will now be further explained through a series of financial scandals that occurred in the first half of the decade.

The Enron Scandal

By 1998 the natural gas company Enron had become a major player on Wall Street. Since its foundation in 1985 the corporation had expanded from natural gas in order to become a financial trader in oil, coal, gas, paper, steel and so on. This had a major impact on its revenues and enabled Enron to become a conglomerate that would not only own and operate physical products such as pipelines, but also become a trader in the financial market. Investors on Wall Street were impressed by Enron's ability to both own and manage large amounts of energy assets (Healy & Palepu, 2002: 5). As a result of deregulation, fuel prices were lowered and supply increased, which also led to instability in the price of gas. Enron began to act as a "bank" for other players on the market and its roles as a natural gas giant and financial player were merged even further (Healy & Palepu, 2002: 6). Its growth was spectacular; in 2000 financial journalists deemed Enron as one of the most successful corporations on Wall Street. But in 2001 what turned out to be house of cards fell (Healy & Palepu, 2002: 12):

> In summary, Enron's gas trading idea was probably a reasonable response to the opportunities arising out of deregulation. However, extensions of this idea into other markets and international expansion were unsuccessful. Accounting games allowed the company to hide this reality for several years. Capital markets largely ignored red flags associated with Enron's spectacular reported performance and aided the company's pursuit of a flawed expansion strategy by providing capital at a remarkably low cost. Investors seemed willing to assume that Enron's reported growth and profitability would be sustained far into future, despite little economic basis for such a projection.

Enron was charged with accounting fraud and obstruction of justice. This case was not something out of the ordinary in the economic system, but rather a major example of how corporate governance and finance had spun out of control (Brickey, 2003: 358, 359). Other major corporations such as WorldCom would generate a number of similar scandals throughout the decade, culminating with the collapse of major financial institutions such as Lehman Brothers and AIG, leading the world into a global recession by 2009. The keyword is *deregulation*; it seems as if the scandal took everyone by surprise, which is connected to the root of the problem; those in charge of monitoring and evaluating the actions of huge corporations such as Enron failed spectacularly in fulfilling their responsibilities. Auditors, lawyers and the debt-rating agencies all failed to report on the mismanagement that was going

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on in Enron (Coffee Jr., 2002: 5). The case of Enron acts as an example of what was going to be one of the major issues in the financial crisis of 2008; how was this allowed to happen? Why did not anyone question the actions of this major corporation before it was too late? Enron was not alone in being guilty of accounting fraud; other corporations also took advantage of how opaque the financial market became with deregulation.

WorldCom

In the early 2000s it became clear how important the Internet and telecommunications would be as an industry for the future. However, WorldCom, a major telecommunications corporation in the USA, overestimated the impact the Internet would have on actual economic profits, which led the corporation to create false accounting reports on how much it had earned in Internet traffic. It had purposefully exaggerated the amount of traffic it had received through its services. Additionally, WorldCom's action led the industry to believe that the Internet had more backbone capacity then what was in fact the case (Sidak, 2003: 210). It was also revealed that WorldCom was bankrupt, as a result of $622 million in losses, which it had reported as $2.4 billion in profit (Brickey, 2003: 369; Sidak, 2003: 210). The corporation had taken advantage of the deregulated financial system, where banks and other investors offered plenty of cheap financing that made it possible to expand telecommunications across the USA (Romero & Atlas, 2002). When it was discovered that WorldCom had produced fraudulent statements, there was a serious dip in confidence in the telecommunications industry, which had serious economic consequences for other companies similar to WorldCom, investors and workers (Sidak, 2003: 209).

Freddie Mac

Together with Fannie Mae, Freddie Mac is a powerful financial institution that buys and finances house mortgages in the USA (Glater, 2003). In 2003 Freddie Mac was charged with accounting fraud by the US government, the very government that had provided federal funds as financial backing to the financial institution. During a period of three years Freddie Mac had understated its net income by $5 billion (Glater, 2003; Weinberg, 2003).

The cases described above function as examples of how the global economic system has become dominated by giant, powerful corporations. Moreover, the cases are examples of poor corporate governance and risk management, which can be connected to the financial crisis

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that hit the global economy in 2008. The fraud committed by these corporations can be attributed to the insufficient or even total absence of accounting standards and regulation (Kirkpatrick, 2009: 62, 63). Corporations such as Enron and WorldCom were active on the financial market, but they themselves were not pure financial institutions in the same way as the banking and investment corporations such as JP Morgan, Bear Sterns, Goldman Sachs and Citibank. However, all of these corporations shared the same lack of regulation, which provides an adequate explanation for why the financial crisis of 2008 occurred and why it had such major ramifications (Kirkpatrick, 2009: 63, 64). When it became clear that many of these corporations had concealed their huge losses from the public, the confidence people in the financial market itself was significantly affected. The degree of confidence did not increase when governments had to start bailing out banks across the board; Freddie Mac and Fannie Mae had to become partly nationalised by the US federal government; the British government nationalised the major Northern Rock banking corporation as a result of a bank run; the German authorities had to rescue IKB and Sachsenbank from defaulting (Kirkpatrick, 2009: 64). This study will now go deeper into what has been described as the largest financial crisis since the Great Depression.

The financial crisis of 2007: bubble burst and the Lehman collapse

The year 1929 became known as the start of the Great Depression, while the year 2007 has become known as the start of the Great Recession, initiated by the collapse of the investment bank Lehman Brothers (Goodwin, Harris, Nelson, Roach & Torras, 2015: 677). There are a number of explanations for why the global economy experienced a financial crisis by 2008; some of the most common explanations cited by business media include: the bursting of the bubble in the US real estate market; deregulation; the use of financial instruments such as derivatives; the accumulation of massive debt by the Wall Street financial institutions (Colvin, 2008; Egan, 2014). This study examines the financial crisis primarily from a macroeconomic perspective, i.e. the ideational structures that were put in place by neoliberal forces during the 1980s, but it will also touch upon the microeconomic consequences of the crisis in order to illustrate how ill-equipped many Americans were for dealing with the financial meltdown that occurred in 2007. Because of the housing bubble, housing-prices skyrocketed in the late 1990s and early 2000s – this led many Americans to rely on their houses to finance their retirement years – when the bubble burst many of these people found themselves completely without a financial security net (Gjerstad & Smith, 2009: 274, 283). How could this be allowed to happen? The rules and institutions of finance laid the

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foundations for the accounting scandals, the massive accumulation of debt and the unrealistic rise in housing prices which is closely connected to subprime mortgages lending (*The Economist*, 2013). Neoliberal forces had made sure that inflation had been kept at the lowest rate possible and the world economy experienced high degrees of growth throughout the 1990s and early 2000s. These years became known as the "Great Moderation" (Palley, 2011: 9; Blyth, 2013a: 207).

Under the influence of neoliberal ideas, labour was weakened and the market was strengthened. This was done through a major shift from one economic model to another. Prior to the dominance of neoliberal forces, the "treaty of Detroit" wage model had been the most powerful game in town in the US economy, where wage growth would result in higher degrees of productivity, which again would lead to full employment, otherwise known as the "virtuous cycle" (Palley, 2011: 5). The American economy had been obsessed with growth since the end of WWII. Palley (2011: 4) examined the case of the global financial crisis by focusing on what he called the flawed growth paradigm. With the election of Reagan and Thatcher, this all changed during the 1980s. Growth was now based on debt and rising prices of assets, replacing wages as the main source of creating demand among the respective populations. In order to achieve this, a rigid process was launched whereby unions were attacked and weakened by capital, wages were lowered and production was made cheaper by moving it overseas i.e. globalisation of the economy (Munck, 2010: 236; Palley, 2011: 5). If one examines the contemporary structure of the economic system through a Keynesian perspective, the reason why the system is experiencing such widespread financial instability can largely be attributed to the neoliberal shift that occurred in the 1980s (Palley, 2000: 5). The global economic system is experiencing severe difficulties, which resembles the perils of the Great Depression although it is not as dramatic; prices continue to rise as a result of widespread inflation and so is the unemployment rate, especially in Europe (Coy, 2014). The power of this particular shift must be understood in historical context; the end of the Cold War ensured that the ideology of communism, and anything that remotely resembled it was completely discredited. It was in this environment that capitalism and the economic triumph of the USA enjoyed unprecedented support. When the Soviet Union imploded, democracy and the free market had won against communism in the battle between ideologies (Chomsky, 1997; Palley, 2000: 12). However, the business cycle would tell the world otherwise, because it now entered into an era of extraordinary economic growth but also devastating economic

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decline, hurting the working and middle classes while empowering financial markets and business elites (Palley, 2011: 7).

It was the flawed growth paradigm that created the bubble in the US housing market, through its focus on borrowing and rise in asset prices as the main engine for creating economic growth. When the inflated house prices finally dropped, the bubble burst and the crisis had begun. Furthermore, the level of savings among Americans had simultaneously gone down because they were encouraged to finance their spending with credit, which left millions worse off after the housing market went into crisis mode in 2007. The American worker had also been a victim of belt-tightening on several levels ever since the neoliberals began dictating economic policy; the wage squeeze as well as the household savings squeeze combined with asset price inflation was a recipe for disaster (Palley, 2011: 9). The financial crisis that originated in the USA left millions of Americans in a terrible situation. It left many jobless and without enough assets to finance their debt, which partially explains why the economy headed into a devastating recession (Goodwin et al., 2015: 677).

In order to fully understand what happened in the US economy in 2007, one must return to the study of the financialisation of the economy. In this process, financial markets as a driver of economic expansion have grown in importance relative to the real economy i.e. the manufacturing of goods and services (Palley, 2007: 2). A critical view of this process indicates that the increased dominance of finance made the economic system more prone to crisis and instability – more specifically, prone to recession and debt deflation (Palley, 2007: 2). This is illustrated by the unstable decades of the 1990s and the 2000s, when several minor financial crises broke out in the global economic system (Palley, 2007: 3). The process of financialisation took place on two levels simultaneously: on a macroeconomic and on a microeconomic level. On the macro level, huge corporations financed their operations by taking on massive amounts of debt, while consumers were buying houses, cars and other consumer products on credit. During the 1990s and the early 2000s economists observed major increase household debt-income ratios (Palley, 2007: 3). Neoliberal market forces and proponents of financialisation worked tirelessly to encourage consumers and non-finance corporations such as Enron and WorldCom to finance their spending through debt (Palley, 2007: 6), while simultaneously lowering wages across the board, i.e. deliberately creating worse conditions for the working and middle class in the event of a recession. This is evident in the sharp increase in wage and income inequality in the USA and in Europe (Palley, 2007: 3, 4). In the next section the study will elaborate on what happened both on the macro and on

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the micro level in the US economy prior to and during the 2007 financial crisis. The perils of Europe will also be touched upon in order to show the magnitude of this financial crisis. It is imperative to understand that this crisis was a result of a gradual move towards the cliff. The US housing bubble and the collapse of Lehman Brothers investment bank can be defined as the catalysts that shoved the global economy off the cliff.

On the micro level the perils of the American worker can be described by looking at the increase in the rate of production during the 1980s and 1990s, with a significant jump in the early 2000s. Initially, this is to be considered as a positive economic development; however, that would only be true if the key actors in the production process experienced a concomitant rise in living standards. This was not the case for the American worker (Mishel, Bernstein & Allegretto, 2007: 1). Wages did not rise parallel to the increase in the rate of production; in fact they were squeezed to the point where the average American has grown to become concerned for future generations' wellbeing (Mishel et al., 2007: 1). Wage stagnation became a serious challenge for many households during the early 2000s in the USA. However, this is not true for all families: "Between 1979 and 2000, for example, the real income of households in the lowest fifth grew 6.1%; the middle fifth was up 12.3%; the top fifth grew 69.6%; and the average income of those in the top 1% grew by 183.7%." (Mishel et al., 2007: 2). The figures quoted provide a clear sign of a sharp increase in economic inequality among US households. Connect this to how the new economic model (neoliberalism) aggregates demand and the reasons for why the financial crisis hit so many households so hard in 2007 becomes quite clear; many Americans were left unequipped to deal with a recession of the magnitude that would hit in 2007.

This brings us to the housing bubble. Americans with low income and poor savings rates were still able to buy houses prior to 2007, but why? It was because of historically low mortgage rates and interests rates; as a result housing prices increased dramatically, so much so that consumers could now place their house as security for additional loans to buy other consumer products, with credit from the banks. When the bubble burst, many were left with nothing. The value of the houses was not real, which made the security many consumers relied on unreal as well (Goodwin, Harris, Nelson, Roach & Torras 2015: 677, 678). Additionally, the banks were careless about whom they provided loans to, because there are many cases in which the customer was without a job and without assets, so therefore they bought houses entirely with the loan that they got from the bank and therefore had no chance to cope with the debt if something went wrong, which it did. This has become known as *subprime lending*.

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The trouble began when banks packed and resold large collections of mortgages intended for investment. Both prime and subprime mortgages were packed together and sold, but they were all labelled with a triple-A rating by the rating agencies Standard & Poor's and Moody's (*Inside Job*, 2010). The role of the rating agencies is to offer an external report on how well a firm is doing, which is to be combined with the the firm's own annual report. A good credit rating is valuable because it means that a third party vouches for the firm in question, and that the numbers the firm has presented are less likely to be manipulated (Swedberg, 2010: 74). However, the rating agencies also can also make mistakes, because there is no such thing as perfect information. Therefore, the rating agencies also rely on so-called proxy information – which is based more on prediction than direct information (Swedberg, 2010: 71). This happened on many occasions before the financial meltdown in 2007, most notably with the investment bank Lehman Brothers. High-risk customers were thus wrongfully labelled low-risk. When this system collapsed, billions of dollars were lost because a huge number of the mortgages were defaulted on (*Inside Job*, 2010).

The financial crisis of 2007 was a global financial crisis; it originated in the USA, where the most advanced and sophisticated financial actors operated, which makes this particular crisis different from the preceding crises of the 1990s and 2000s. The proponents of neoliberal globalisation on Wall Street brought on the financial troubles that hit East Asia and Latin America. But in 2007 they found themselves in the eye of the storm (Drezner & McNamara, 2013: 156). The study will now deal with the collapse of the investment bank Lehman Brothers, illustrating the fragility of the financial system and the bank's rivalry with Goldman Sachs prior to the crisis of 2007; this in turn illustrates the close connection between Washington and Wall Street, i.e. political power and economic power.

Lehman Brothers and the "credit crunch"

In 2007 it became clear that the financial system was rotten; housing prices started to fall and what until then had been a constant build-up of debt started to slow down significantly; it became clear that many of the mortgages provided for housing were toxic in the sense that the borrowers had no ability to repay what they had borrowed from the banks (Skidelsky, 2010: 4). This led to a massive panic across the globe, because the banks had issued securities on those mortgages, which turned out to be worthless; fearing that they would go under, the banks stopped issuing loans. One of these banks was the Lehman Brothers, but it was already bankrupt and it collapsed, undermining most of the confidence in the financial market

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(Skidelsky, 2010: 5). Investors started pulling money out of circulation, hence worsening the impact of the collapse. Because banking activity is largely based on the *incentive of trust*, when that disappears things can go horribly wrong. Lehman Brothers was massive prior to the collapse; it was the third largest investment bank on Wall Street. It led operators in financial markets across the globe to ask whether all the other major financial institutions could collapse as well; therefore trust in banks and the financial market as a whole vanished (Swedberg, 2010: 73). The case of Lehman demonstrate the fragility of the financial system, which again can explain why the system is so prone to crises; many of the decisions taken by bankers and investors are based on the calculation of hidden losses; they make predictions and decisions not on the best possible information that is available, but on alternative signs that might tell them what the state of affairs might be (Swedberg, 2010: 74). In the case of economics, this could be illustrated by looking at the rating agencies; Moody's and Standard & Poor's rated Lehman Brothers triple-A just days before it collapsed; this was the highest rating possible (Frydman & Goldberg, 2013).

Crises are not new in the capitalist system, but there are strong grounds for arguing that the increased dominance of finance in the global capitalist economy has introduced more fragility into the system (Frydman & Goldberg, 2013):

> Regulators, bankers, and rating agencies bear much of the blame for the crisis. But the near-meltdown was not so much a failure of capitalism as it was a failure of contemporary economic models' understanding of the role and functioning of financial markets – and, more broadly, instability – in capitalist economies.

The close ties between Washington and Wall Street

It was no secret on Wall Street that there was a strong rivalry between some of the banks and investment firms; however, the rivalry between Goldman Sachs and Lehman Brothers is especially relevant to this study because it illustrates the power dynamics not only on Wall Street but also in Washington DC. Hank Paulson, Treasury Secretary during the Bush administration and former CEO of Goldman Sachs, played an integral role in the bailout process of the major financial institutions (Brenner, 2009: 1). However, Lehman Brothers was denied a government bailout on the grounds that the investment bank's assets were in such poor condition that the Federal Reserve could not justify a bailout. However, bailouts were given to a number of other financial institutions such as the American International Group (AIG). This had led to questioning of the decision to let Lehman collapse; was it just a poor decision taken in a wider context of complete financial meltdown, or was it a deliberate

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decision taken by Hank Paulson to hurt a competitor (Treacy, 2014)? While Hank Paulson argued that the Fed could not save Lehman on legal grounds, statements made by unnamed sources within the Fed might lead people to draw a different conclusion (Stewart & Eavis, 2014):

> Interviews with half a dozen Fed officials, who spoke on the condition they not be named, so as not to breach the Fed's unofficial vow of silence, suggest some Fed insiders believed that the government had the authority to throw Lehman Brothers a lifeline, even if the bank was nearly broke. The Fed earlier came to the rescue of Bear Stearns, after doing little analysis, and only days later saved the American International Group. The government subsequently saved the likes of Bank of America, Citigroup, Goldman Sachs and Morgan Stanley. Ultimately, whether Lehman should have gotten Fed support was a judgment call, not a matter of strict statute, these people said.

The collapse of the Lehman Brothers plunged the world economy into crisis and had severe implications for thousands of Americans who lost their jobs. It was not a legal decision, but "a policy and political decision" (Stewart & Eavis, 2014). The next section will deal with how the financial crisis led economists and politicians in both the US and Europe to re-examine their macroeconomic policies by looking at Keynesian economic theory, i.e. deficit-spending, in times of crisis in order to stimulate economic growth. However, the return of Keynes proved to be short-lived, because of the deeply entrenched rules and institutions of finance.

Europe in turmoil

The rules and institutions of finance were championed on both sides of the Atlantic. An important aspect of the European integration project has been the integration of markets; while the supranational project was being developed in the 1980s, neoliberal forces were unleashed (van Apeldoorn, 1998: 12). While European economies traditionally have had tightly regulated markets and a strong presence of the state in order to ensure a presentation of the public's interest, the influence of finance grew stronger and stronger as the EU developed. In fact, the supranational project essentially paved the way for finance, because of the EU's deep commitment to open markets across state-borders – the neoliberal ideology was effectively institutionalised through the Economic and Monetary Union (EMU), commonly known as the "Eurozone" (van Apeldoorn, 1998: 13). Globalisation and the dominance of neoliberal forces led to an intense focus on making the economies in Europe as competitive as possible to compete in the global economy; as a result, the European project of cooperation was hijacked by the interests of finance and the free market (Rosamond, 2002: 166; Feffer, 2015). Major transformations followed in the form of deregulation practices with regards to corporations, paving the way for global corporate governance (van Apeldoorn & Horn, 2007:

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211). Furthermore, the supranational project was developing fast in the 1980s, around the same time as the Soviet Union began to lose all influence in the international system. With the demise of the USSR, Prime Minister Margaret Thatcher boldly stated that there was no alternative model to the model of a globalised market-oriented democratic state (Feffer, 2015). These structural changes carried specific connotations, reflecting the rules and institutions of finance. This would have severe implications for the perils that Europe was about to experience when the Great Recession hit its economies.

In 2008 Europe was hit hard by the financial crisis. A number of countries in the European Union (EU) experienced a severe economic downturn during the financial crisis. Prior to the crisis, countries like Greece, Spain and Portugal were already struggling with massive deficits, but now the deficits became too much of a burden for the relatively small economies within the Eurozone. Europe experienced major difficulties as a result of the crisis, and it still struggles with sluggish growth and high unemployment almost a decade later (Krugman, 2015). In 2008 the crisis was at its worst, and both the USA and Europe were desperate for answers; they found it in Keynesian theory. In order to resolve the issues created by the crisis, governments were running huge deficits, increasing public spending and providing banks and investment firms with massive bailouts so that they would stay afloat (Krugman, 2015). This is exactly what the Bush administration started to do and what the Obama administration continued to do in order to deal with the immense difficulty of getting the economy back on its feet. The steps taken by the US government were to prevent the complete meltdown of markets, banks and the entire economy, which illustrates how incredibly wrong everything had gone. Moreover, it illustrates a "Keynesian moment" because of how the US government intervened in the economy, bailing out major corporations that were on the brink of bankruptcy in order to kick-start the economy, going against the laissez faire policies of neoliberalism (Terzi, 2010: 3).

The return of neoliberalism and the "austerians" in 2010

However, the Keynesian policies were never meant to be in place for long, because both the US government and those in Europe were adopting a "short-term fix" strategy which goes against everything that Keynes stood for – which in turn makes for a strong argument that the return of Keynes never really happened (Terzi, 2010: 3). Furthermore, it ensured that the interests of finance were honoured, because the bailouts went to those that had lost the money in the first place: the banks (Blyth, 2013a: 207, 208). By 2010 austerity was back on the

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menu, illustrating the power of this ideology; not only was it the wrong time to bring austerity back, but there is strong evidence of austerity never being the right approach to solve economic crises, because it just creates a bigger hole. “The first law of getting out of a hole is to know when to stop digging” (Blyth, 2013b: 739). Europe and the USA need to stop cutting down (Blyth, 2013b: 739). But this does not seem to be anywhere near the reality that Europe finds itself in. The policies of Keynesian economics were overturned and harsh austerity measures were introduced in Europe by the infamous troika: the European Commission, the IMF and the European Central Bank. The case of Greece illustrates the return of austerity and neoliberalism – forced to make considerable changes to its economic structure, Greece has fallen victim to the strength of financial norms in the global economy: privatisation and deregulation of the Greek economy (Argitis, 2012: 1). However, this started a long time before the financial crisis of 2007, because in the last two decades Greece has been turned into “a consumption/demand-driven growth economy heavily reliant on debt accumulation, with significant structural deficits in the production system that steadily undermined the country’s competitiveness” (Argitis, 2012: 2). Furthermore, the troubles that Greece faced with a massive, uncontrollable deficit, a rising unemployment rate and a turbulent political environment was the crisis the austerians were looking for. They pointed to the recklessness Greece had exhibited with its deficit spending, and argued that the country was the prime example for why countries in financial trouble should not consider Keynesian deficit spending if they want to avoid a Greek tragedy (Krugman, 2015).

Conclusion

This chapter has described and explained how the rules and institutions of finance became a highly influential force in the global economic system, creating the foundations for global financial governance. It has provided the historical background to the process of financialisation by looking at how the financial sector rose as a strong force in the economy during the late 1800s, and how that evolution created the economic conditions that eventually led to the Great Depression of the 1930s. The chapter has explained the return of finance in the post-Cold War era by describing the rise of neoliberalism and the capturing of powerful international institutions such as the IMF and the World Bank. Parallel to this evolution, the study examines the relationship between a growing financial sector and the increasing occurrence of financial crises; it described the perils of financial destruction in Latin American and East Asia, which set the stage for the global financial crisis of 2008-2009. The Great Recession acted as the prime example of just how strong finance has become. While

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many predicted that this crisis would be the end of the dominance of finance and the neoliberal approach to economics, the power of the financial sector and the belief in the neoliberal ideology turned out to be very resilient (Cahill, 2011: 479). Although there have been attempts to reign in the financial sector, it is possible to say that the international community has succeeded in doing so. One example of attempted regulatory steps is the Basel regime, which has been written off as a failure and even a contributor to the crisis with the failure of Basel II (Cannata & Quagliariello, 2009: 1). In the aftermath of the 2008 crisis, Basel III was created, but it shows little signs of offering any improvements with regards to regulation and mitigating of risk; the language in the Basel III proposals on how much the capital requirements should be for banks can largely be viewed as a failure (Dowd, Hutchinson & Ashby, 2011: 1). Without radical changes, the financial sector remains too powerful to be subjected to any kind of real regulatory control based on the system offered by the Basel regime (Dowd, Hutchinson & Ashby, 2011: 1). This is a major problem because the world might experience the same or even something worse when the next crisis hits.

There are a number of predictions made about when the next crisis will hit, and many scholars within the fields of economics and of IR, as well as journalists, debate the magnitude of the potential crisis. But what seems incontrovertible is that it will occur again, and that financial markets will once again tremble with fear and distrust. That should be enough to bring about significant changes in the way economic activity is conducted, but the financial crisis of 2008-2009 shows the strength of the norms of finance quite clearly. Despite the shouting from both the left and the right of the political spectrum, very little change came about in the wake of the Great Recession. The influence of Keynes was all too brief, and austerity became the acceptable solution for the economic perils many countries found themselves facing. Signs point to the fact that the financial sector has not been tamed (Johnson, 2015). The mention of Keynes is highly relevant, because of his predictions of what would happen if the market was left to govern itself in the way that the classical and proponents of neoliberalism argue for; without some kind of authority, such as a state's macroeconomic policy, to regulate the market forces, this situation will create a dangerous and unpredictable environment. Moreover, the market machine will spin out of control (Frydman & Goldberg, 2013).

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CHAPTER 3

Developing a constructivist lens

"Constructivist theories, in contrast, look to the humanities and sociology for insights into how 'reality,' including the interests that partially constitute the identity of actors, is socially constructed" (Katzenstein et al., 1998: 646).

Introduction

Is constructivism capable of explaining how and why international institutions are susceptible to the influence of norms emerging in the global system? Can it be used to identify, describe and explain the role of norms and institutions with regard to changes occurring in the global system? Before demonstrating the usefulness of constructivism in explaining the process of financialisation, this chapter situates the evolution of constructivism within the IR discipline, as this provides an important historical context, explaining the origins of constructivism as a theory. This occurred around the same time that the Soviet Union broke down, fundamentally changing the structure of the global system. Furthermore, the following sections will touch on the Great Debates in IR, the third of which led to the establishment of constructivism as an IR theory (Lapid, 1989). The chapter goes further into the theory of constructivism and presents the views of some of the theory's most influential scholars, as well as some of its central concepts such as intersubjectivity, language and identity. Finally, a great deal of space will be devoted to explaining the norm life cycle theory of Finnemore and Sikkink (1998). An elaborate explanation will be provided of each of the norm life cycle's three stages: emergence, cascade and internalisation. Individuals and institutions that champion certain norms are discussed in connection with the first stage, norm emergence. The study discusses the end of the Cold War and the fall of apartheid in South Africa as examples of norm change. To illustrate the explanatory power of the theory, especially with regard to accounting for changes in the international system, the chapter juxtaposes constructivism to what are defined as the conservative theories in IR: neorealism and liberal institutionalism.

The origins of IR theory

In the aftermath of WWI politicians and academics alike argued for a better integration of the study of international relations into one discipline. The result was the creation of the department called "International Politics" at the University of Aberystwyth, Wales in 1919 (Brown, 2005: 22). The devastation of WWI led scholars and politicians to believe that war was no longer profitable in the same way it had been in the 19th century. Four years of

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destruction and death had left most of the states involved on the brink of bankruptcy (Brown, 2005: 9). While international relations (small i, small r) had existed prior to WWI, the *theories* came after. Germany was the instigator, and was naturally blamed for WWI, but scholars and politicians also questioned the very structure of the international system and aimed to create boundaries that could prevent similar events from occurring again (Brown, 2005: 20). The history and evolution of the IR discipline can be divided into epochs, marked by the Great Debates.

The First Great Debate

The first major theory within in the field of IR was idealism, or as it was known as in the first half of the 20th century, liberal internationalism (Ashworth, 2002: 33; Brown, 2005: 20). The IR discipline was created and developed by scholars in the US and Britain, and this is also where the scholars of liberal internationalism could be found (Brown, 2005: 20, 21). The most famous proponent of this theory was US President Woodrow Wilson, whose theoretical conviction was integral in the creation of the League of Nations, the predecessor to the United Nations (UN). While President Wilson attempted to remove war from the table, his approach led to everything but. His idealism was a misguided attempt to create long-lasting peace between a set of players among whom nothing had been solved; the treaty of Versailles was Britain's and France's way of getting revenge on Germany for the massive destruction it had caused, but the demands made by Britain and France were too harsh and impossible for a war-torn Germany to meet, and in fact stimulated the rise of fascism. It was in this environment that President Wilson preached the utility of idealism; one of the central concepts of his Fourteen-point speech was the prevention of war through negotiation and international structures, hence the creation of the League of Nations (Brown, 2005: 22). Furthermore, Wilson founded the League of Nations upon the principle "one for all and all for one", which meant that each League of Nations member was responsible for other members' safety and security; that way Wilson created the concept of "collective security" (Brown, 2005: 22). His idealism shines through in his promotion of liberal democracy as the best system for preventing war and his firm conviction that most people did not want war. It was crucial to prevent autocratic and totalitarian individuals from usurping power, because Wilson believed that the "people" did not want war. They just had to be protected from autocrats and totalitarians attempting to usurp power (Brown, 2005: 21). In their critique of liberalism/idealism, realists pointed out how wrong and naïve this mode of thought was, and used the example of how Hitler rose to power through semi-democratic means and enjoyed

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widespread support among the German people (Brown, 2005: 24). Furthermore, Wilsonian idealism attempted to create peace through international structures in an international system that was anything but peaceful, which means it was doomed to fail from the beginning (Brown, 2005: 21). Lastly, Wilson emphasised the importance of national self-determination, but was unable to prevent Britain and France from demanding detrimental war reparations of Germany, causing one of the major players in the international system to believe that the League of Nations was treating it unjustly from the start (Brown, 2005: 23).

The breakdown of the League of Nations and the start of WWII laid the foundations for the First Great Debate in within the field of IR. It was a discussion around which theory could best describe and explain international politics: classical realism was a clear winner (Jackson & Sørensen, 2007: 39), because realists focused more on the aspect of conflict as an explanation for state behaviour in the international system. If one looks at of the 1930s one can clearly see it filled with conflict, which culminated with the breakout of WWII. In the idealist mind, "war" was supposed to be replaced by "law", but it became clear that law and order could only be upheld by the threat of war (Brown, 2005: 25). Highly influential scholars such as E.H. Carr and Hans Morgenthau delivered devastating critiques of the work by idealist scholars, and attributed much of the blame for both WWI and WWII to the liberal/idealist structure of the international system (Ashworth, 2002: 34). The theory was simply too idealistic and downright naïve, according to some realist scholars. In fact, some of them were convinced that the appeasement aspect of liberal internationalism was one of the explanations for the outbreak of WWII (Ashworth, 2002: 34). Another explanation favoured by realists was the unrealistic demands from Britain and France made to Germany at the Paris Peace Conference of 1919 (Jackson & Sørensen, 2007: 39). These factors illustrate the rise of classical realism as the dominant theory within the field of IR in the post-1945 years.

For realists, peace and cooperation in the international system cannot be achieved in the long-term, because states will always pursue their own national interests first. Furthermore, realists consider states as the primary actors in international relations, earning the label of being "state-centrists" (Donnelly, 2005: 29, 30). States compete for power in an anarchic system where the states' actions are guided by self-interest. Realists, like Hans Morgenthau and Henry Kissinger, based their work on philosophers such as Hobbes and Machiavelli; the latter preached that diplomacy is both possible and desirable, but one must always retain a sense of wariness in such process because all men are prone to malignant deeds when they see an opportunity before them (Donnelly, 2005: 30). While realism was without a doubt the

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dominant theory after WWII, the liberal scholars still had a certain degree of academic legitimacy, especially when they pointed out the abnormality of the 1930s and 1940s, because rarely has a historical period been plagued by that much conflict (Jackson & Sørensen, 2007: 39). The debate between liberals and realists was not over; both theories were going to remain the two pillars of IR theory for decades to come.

Ashworth (2002: 33) pointed out that the dispute between idealism and realism was not centred on one single debate, but many discussions about three central questions: Does the capitalist system create the foundations for warfare? What are the appropriate responses to aggressive totalitarian states? Is it conducive to peace to maintain alliances in an environment that is plagued by conflict and economic collapse?

The Second Great Debate

IR theory became an important discipline in the post-war era, because of its ability to produce grand assumptions and explanations on the functions of the international system that included the fields of political science, economics, history, philosophy and international law. However, it became clear that scholars distinguished between a historical outlook and a scientific outlook on international relations (Curtis & Koivisto, 2010: 433). This is how a divide developed between those scholars who subscribed to the traditional approach to IR and the behaviourists who argued for greater scientific rigor in the discipline (Curtis & Koivisto, 2010: 435). The influential scholar Hedley Bull became the proponent of the traditional approach, which had a holistic and a humanistic outlook on IR, focusing on the moral dilemmas of international relations such as security and justice (Jackson & Sørensen, 2007: 41). For Bull, the workings of the international system had to be understood through philosophy, diplomatic history and international law (Curtis & Koivisto, 2010: 435). He entered into the Second Great Debate with Morton Kaplan, who supported the scientific (positivist) methodologically oriented approach to IR, and argued that the discipline needed to become more concerned with empirical and measurable data. Only then could objective assumptions be made about the international system (Curtis & Koivisto, 2010: 435). The behaviourists placed themselves outside the subject they were researching (Jackson & Sørensen, 2007: 42). Neorealist scholar Kenneth Waltz would become an important advocate of this particular approach, which in return strengthened the footing for realism, until it was challenged in the debate between neorealism and liberal institutionalism i.e. the conservative

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theories in the 1970s on the many links between states that stretched beyond the political-military realm (Jackson & Sørensen, 2007: 43).

The Inter-Paradigm Debate

Liberalism and realism had been the two most dominant theories in IR since the end of WWI; however, the critical aspect of IR theory came from a strong Marxist camp within the discipline. Contrary to what many believe, Marxism has been an important voice in IR even longer than the two most dominant theories. Wæver (1996: 151) argued that Lenin's *Imperialism, the Highest Stage of Capitalism* was one of the first major works that provided an IR analysis of global politics. The theory of realism remained strong throughout the 1950s, but in the 1960s the theory faced increased criticism, not for its methods but more for its obsession with the state and its unwillingness to discuss concepts and developments that occurred outside the political-military domain (Wæver, 1996: 150). Robert Keohane's understanding of the concept of interdependence would become the starting point of a Inter-Paradigm Debate between the two dominant theories: neorealism and liberal institutionalism (Keohane & Nye, 1977; Wæver, 1996). Liberal institutionalism shared a number of conceptual definitions with neorealism, meaning it did not present itself as a viable alternative theory in IR. Marxism, on the other hand, did. The Marxist scholars in IR were concerned with conflict in the social sphere, both within and across state borders, i.e. conflict between different social classes and how that affected the international system (Wæver, 1996: 152).

Neorealism and liberal institutionalism

While the first half of the 20th had been plagued by war, destruction and distrust, the second half was considerably different. A number of international institutions had been created: the EU, WTO and OECD. These institutions created a degree of interdependence; economic trade built incentives for cooperation and mitigated violent conflict between states, especially in Europe. They also provided states with increased access to information about their trade partners, which reduced tensions even further (Jackson & Sørensen, 2007: 44). This development created problems for the neorealists' anarchic outlook on international relations; the creation of the EU meant that cooperation both on economics as well as political grounds was *institutionalised*. Explaining how international institutions could lead to further developed between states and mitigate conflict became known as complex interdependence theory, which was advocated by scholars such as Keohane and Nye (1977).

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The Third Great Debate and the birth of constructivism

Constructivist theory emerged in IR at the same time as the Soviet Union was falling apart. In the light of the major changes that were about to take place in the international system, a new precedent was created for explaining the behaviour of actors in the international system, as well as the system itself. The ontology and epistemology of the conservative theories were dramatically challenged. This was a debate that called into question several concepts that had enjoyed long-standing acceptance, such as "objectivity", "rationality", "reality" and "truth". One of the results of the Third Great Debate was the end of the consensus that characterised the positivist method, which created a space for the development of critical theory and constructivism.

Scholars of critical theory and constructivism concerned themselves with investigating the "hidden" domain behind fundamental assumptions. Examples of such assumptions were the make-up of international organisations, the workings of the anarchic international system, the power of the US hegemony (Lapid, 1989: 236–238). These theorists assumed that the international system experienced several transition periods, or interregnums, spurred on by catalytic events in history. Constructivist theory deals with all the main concepts in the conservative theories, providing an alternative understanding of the anarchic world system, the structure and identity of different states, and of the way that the balance of power is created, i.e. constructivists offer a reconceptualised understanding of international relations (Hopf, 1998: 172). But the theory’s utility lies in the position it takes with regards to concepts in general, because constructivists are interested in the meanings behind concepts, structures and institutions and how they shape our world, because constructivists believe that they are products of a socially constructed reality. Born out of critical international theory, constructivism does not take material structures such as the WTO for granted, but is rather concerned with the *normative* aspect of the international institutions, i.e. how these institutions are shaped by certain norms and identities (Price & Reus Smit, 1998: 259). The next section will examine the Third Great Debate in IR.

Lapid explained the reasons behind the Third Great Debate and also provided an assessment of what this new approach to analysing international relations could mean for the body of IR as a whole (1989). Constructivism, as one post-positivist theory out of several, was founded upon a different philosophical platform than neorealism and liberal institutionalism; it critically interrogates the assumptions that positivist theories make, such as the international

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system being of an anarchic nature (Lapid, 1989: 242). George (1989: 269) built on the article by Lapid, but offered a broader view of the Third Great Debate when he wrote on the purpose of the new critical theories. Both old and new critical theories had a common purpose – promoting new sets of thinking about international relations. Constructivists explored spheres that had not yet been covered by the conservative theories, questioning the definitions of "realities". There was a new conversation about how to understand science, and how to understand it differently from the positivist perspective that had been so dominant for so long (George, 1989: 270). He wrote on the dissenting voices that called into question the way Western scholars understand concepts and language; realism was under attack for its narrow understanding of concepts such as "rationality" and "irrationality", as well as the role of agents and structures in a society. According to George (1989: 272), realism was so dominant that it was able to monopolise the understanding of reality. The new critical theories called for a break with the realist, Western-dominated outlook on international relations, and rather argued for creating a thinking space that could have room for multiple understandings of reality (George, 1989: 273).

Constructivism in other disciplines

Before elaborating on the role of constructivism in IR, it is instructive to look into other fields where the theory is used. This will help to illustrate the utility of constructivism as a mode of thinking about concepts such as reality, power, the state and force as well as the socially constructed meaning behind these concepts, because constructivism can be applied to a number of disciplines including international law, history, anthropology and sociology. According to Finnemore (1996: 325), constructivism arrived rather late in IR and has been used in the aforementioned disciplines for a much longer period of time. With a background in sociology, Finnemore (1996: 325, 326) delivered a strong critique of the dominance of realism and liberalism in the field of political science. To understand the importance of norms and culture when attempting to analyse the role and impact of international institutions is vital, and should therefore be a priority for scholar of IR within the field of political science (Finnemore, 1996: 326). This is how Finnemore contributed to the implementation of norm studies in IR theory.

Theories in IR have deep roots in philosophy. The first realist scholars can be traced all the way back to Ancient Greece to the work of Thucydides (Kratochwil, 1993: 69). In field of philosophy constructivism can be linked to the theories of Kant and his understanding of

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morality. For Kant, concepts such as *justice* were constructed and did not entail an objective meaning to which all individuals could subscribe. As Rawls (1980:518) put it: "Kantian constructivism holds that moral objectivity is to be understood in terms of a suitably constructed social point of view that all can accept". In a democratic society the collective has the ability to discuss and reach a consensus on the fundamental meaning of justice, for example (Rawls, 1980: 518). The following section will examine the role of the constructivist discipline in IR and how the discipline challenges the foundations of the conservative theories.

Constructivism in IR

The concept of change is central in the theoretical framework of constructivism. Constructivists are concerned with the balance of power, the anarchic structure of international relations and the possibility of change. Along the same lines as critical theory, its ambition is to illustrate the crucial importance of taking the social world into account when attempting to explain international relations (Adler, 1997: 323). Both theories argue for the social construction of identities, meaning that the interests and actions of actors will not remain the same, but they will change along with the change in world order. Wendt (1992) famously wrote, "anarchy is what states make of it", which was a response to neorealists who argued against the possibility of long-term cooperation between states. However, there are elements that clearly separate constructivism from critical theory.

The theory of constructivism became the product of the Third Debate within IR. It was a debate between various modes of critical theory, where academics disagreed on the ontological focus and epistemology of critical theory. It occurred around the same time that neorealism started to lose its hold within the field of IR theory. With the end of the Cold War, neorealism experienced a crisis of legitimacy being unable to account for the major structural change, or for the relatively peaceful dissolution of the Soviet Union (Price & Reus Smit, 1998: 263). Constructivists concern themselves with questioning the motivation and understanding behind existing material structures such as international organisations. They argued that normative and ideational dynamics must be considered when analysing material structures because they are the product of shared knowledge or mutual understanding (Price & Reus Smit, 1998: 266). For this particular study, it is the concern with ideational structures in the form of international financial institutions that will be studied closely.

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The constructivist framework focuses on understanding the linkage between ideas, norms and identities in order to understand change in the global system. The idea is a central factor in explaining human behaviour, state structures, the structure of international organisations and material resources. The conservative theories argue for the positivist, or natural scientific, approach to IR. Adler (1997: 320–321) used the metaphor of gravity to illustrate that there is a difference between dropping a rock in mid-air and dropping a bird in mid-air. The rock will fall to the ground, but the bird might choose to fly because it is influenced by information and is therefore be able to make a decision. This metaphor can be taken further to include a group of nations, which have the ability to make decisions based on whatever information is available. While the rock is an inanimate object and thereby under the constraints of physical force i.e. gravity, a nation is comprised of complex organisms i.e. human beings that will be affected by a number of variables, where physical force and constraints are only two of the variables that can affect the actions taken by human beings (Adler, 1997: 320, 321). Furthermore, rational choice and individual preferences are integral components but other factors also determine the actions taken by human beings, such as ideas and norms (Adler, 1997: 321; Finnemore & Sikkink, 1998: 896). Political behaviour is influenced by physical reality only to a certain degree; interests and identities are components that also need to be considered to fully understand the motivation behind certain types of behaviour (Adler, 1997: 324). When it comes to material structures such as international organisations, constructivists argue that they are products of collective understandings that some point in time led to their establishment (Adler, 1997: 322).

While the end of the Cold War became the big breakthrough for constructivism as a theory in IR, the inability of the conservative theories to foresee or explain the reasons behind this surprising development raised problems about their legitimacy. The next section will elaborate on the political climate towards the end of the 1980s and the failure of especially neorealism to predict the fall of the Soviet Union.

From a bipolar world to a unipolar world

Kratochwil (1993: 73) provided an important critique of the conservative theories in the wake of the breakdown of the Soviet Union. He argued that it was an embarrassment for neorealism especially, because it could not predict or explain the major structural change that occurred in the Soviet Union based on the theory's framework. Most of the IR community was baffled; based on historical patterns it was predicted that in the event of a breakup of the Soviet

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Union, the political leadership's response to economic and political stagnation would be of an imperialist and autocratic nature (Kratochwil, 1993: 73). This did not happen, because the demise of the Soviet Union can be described as a peaceful process – further challenging the assumptions of neorealism about how states dismiss cooperation to persevere their autonomy when Soviet requested to join the Western multilateral institutions it had previously fought against (Kratochwil, 1993: 73). This illustrates the importance of an alternative IR theory that could challenge some of the axioms of neorealism, such as the persistence of the anarchic structure of the global system (1993: 65). Because anarchy is indeed what states make of it (Wendt, 1992: 395). Another utility of constructivism is its understanding of power in the international system, especially with regards to hegemonic power. Since the end of WWI, the US has dominated the international system with its political, economic and cultural power. By applying a constructivist perspective it is possible to examine what that has entailed with regards to the structure and meaning of international institutions, because they do to large extents reflect the ideas, interests and norms of the American hegemony (Ruggie, 1998: 863). Furthermore, by looking at the ideational components of material structures such as the UN, the IMF and the North Atlantic Treaty Association (NATO), all institutions that have been shaped by the US in one way or another – constructivism is able to identify several different types of hegemony that were created by the USA (Ruggie, 1994: 559). But the superpower has been forced to adapt to the changes in the global system, and had at several points in history to re-evaluate its position in the global system (Ruggie, 1994: 553). It has asserted its dominance in the global system through its military and economic strength, using the two types of powers interchangeably in order to shape the world in its image. The next section provides a short historical overview of the different types of US hegemony in the 20th century.

One of the most important foundations of the US hegemony is its geographical position, largely isolated from the rest of the world, with an extraordinary amount of natural resources (Ruggie, 1994: 563). Already in the beginning of the 20th century the USA was well on its way to becoming the world's leading economy. Geographically isolated from the two world wars, the US mainland did not experience the destruction caused by war, which left Europe it ruins. It was therefore in a position to replace Great Britain as the leading nation in the world. It started with the Wilsonian idealism after 1919, which laid the foundations for the League of Nations. This epoch of idealism lasted until the breakout of WWII, and was based upon a range of institutional security arrangements that would act as guarantors against war and violent conflict, grounded in national self-determination and universal human rights.

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President Woodrow Wilson was adamant about making it clear that the force of the USA was not at the disposal of just any other state that would be in need of it, but the League of Nations was meant to develop into a collective security organisation (Ruggie, 1994: 557, 558). As Ruggie pointed out, this was a recipe for disaster that would culminate with the outbreak of WWII. After the end of WWII, a new epoch began after 1945. The structure of the UN was more sensitive to the realities of international politics and was therefore a more realistic alternative to the League of Nations (Ruggie, 1994: 559).

Ruggie concerned himself with the rhetoric that was used after the end of the Cold War was surprisingly similar to that used by Wilson in 1919 after WWI, and by Roosevelt in 1945 after WWII (1994: 559). The third world order was also about self-determination and support for international institutions that would safeguard economic transactions. This mode of thinking has been so engrained in the US mentality that the one-dollar bill states “Novus ordo seclorum”, a “new order for the ages” (Ruggie, 1994: 564). The IMF and the World Bank acted as the long arm of American influence over the global economic system, cloaked in the language of multilateralism (Ruggie, 1994: 559). Ruggie also criticised neorealism for not being able to understand the ideational and aspirational dimension of the desire to create a world order, causing its proponents to neglect fundamental aspects of US foreign policy (1994: 569). The usefulness of constructivism lies in its ability to explain how change occurs and what that change entails; the capitalist system is now increasingly being governed by the forces of finance – prior to this change it was the captains of industry who pulled the strings. This is a significant development that neorealism does not even begin to cover, because it does not assume fundamental change can occur in the global system.

Related to the concept of change are notions such as norms, identities, ideas and intersubjectivity. The body of constructivist theory in IR gained serious recognition following the major structural changes that occurred after the end of the Cold War (Guzzini, 2000: 151). Guzzini described the method as reflexive modernity, arguing that the theory attempted to account for and explain the increasing self-awareness in international relations. This is much like the realisation that the European powers came to when they started the process of decolonisation, namely that the rules of the international system were not only made by them but also for them (Guzzini, 2000: 153). Central to understanding the change that occurred in the capitalist system is the focus on norms. Kratochwil and Ruggie (1986: 767) argued for the importance of norms in understanding behaviour in the global system. A norm is a combination of rights and obligations, coming together in standardised behaviour (Kratochwil

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& Ruggie, 1986: 769). Norm behaviour cannot be measured in the way the positivist (conservative) theories measure activity in the global system. A norm can guide or inspire certain behaviour, or it can be partially or completely ignored, making it difficult to understand the importance of norms through empiricist-oriented conservative theories (Kratochwil & Ruggie, 1986: 767).

Language

In the *World of Our Making*, Onuf (1989) touched upon a number of topics that concern constructivist scholars such as law and language, the concept of anarchy, hegemony and power politics. He took a philosophical approach by looking through the lens of Wittgenstein's understanding of language and rules. Wittgenstein's philosophy is central because of his focus on the power of language. Linguistic power is central to understanding how norms reach their respective stages in the norm life cycle: emergence, cascade and internalisation (Finnemore & Sikkink, 1998: 898). Language is used to describe the world we find ourselves in, making it possible to compartmentalise our experiences and make sense of them through the use of language (Onuf, 1989: 37). His understanding of Wittgenstein is relevant to this particular thesis because of Wittgenstein's work on the way individuals *utilise* language. Norm entrepreneurs use a specific kind of language in order to gain specific acceptance for the norms they are trying to implement; to use a specific language is to argue for a specific form of life. Rules, Wittgenstein wrote, determine the use of language for social purposes (Onuf, 1989: 43). This is closely connected to the study of norms and their influence in international relations; language and action are guided by rules and norms. For constructivists and Wittgenstein this means that international relations are also guided through rules and norms (Kierke, 2007: 175).

Structures, identities and interests

Kratochwil (Kratochwil, 1982: 5, 6) asked what the term "interest" entails; for him it was more than just an indication of preference, likes or dislikes; interests indicated not only preference but also a certain degree of justification for that preference. While Onuf was the one who initially wrote on constructivism in IR theory, Wendt created what many consider to be one of the pillars in constructivist theory. His work on the importance of identity in international relations and its relation to the concept of anarchy is essential reading (Wendt, 1992). The conservative theories build upon the assumption that the international system is of an anarchic nature and that fundamental change does not occur. They further assume that

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states will first and foremost aim to protect themselves before considering entering into an allegiance with another state; self-interest defines the interests of a state (Wendt, 1992: 392). The anarchic structure of international relations tends to create an environment where power politics and self-help are the most dominant practices for states. However, states' tendency to favour self-help power politics is not denied by Wendt, but he argued that these concepts are part of a particular social reality. By social reality he means that the world is socially constructed and therefore states are institutions of this particular, socially constructed system (Wendt, 1992: 395). For Wendt, institutions embody a stable set of identities and interests. These sets are "codified in formal rules and norms" (Wendt, 1992: 399). Therefore, institutions cannot exist independently of actor preference and beliefs, and will only therefore mirror the interests of the most powerful actors in a given system (Wendt, 1992: 399). Therefore, when change occurs it is a consequence of changes in the identities and interests of states and other actors in international relations. The process of international relations is not a natural but a social one. And in social process, relationships and practices are under constant construction and reconstruction; therefore the self-help practice is open to change, making the whole anarchic system open to change (Wendt, 1992: 407).

Wendt elaborated on the importance of understanding identity and how it connects to interests in an article on the socially constructed phenomenon that is global politics (1995: 71). Wendt lent support to the neorealist camp in the Neo-Neo Debate by agreeing with Mearsheimer's five points on why institutionalism is a "false promise", while at the same time pointing out where constructivist theory differs from neorealist theory; the latter theorists believe international structures are made up of material capabilities, while constructivists believe they are made up by social relationships. Hence, they are based on shared or intersubjective knowledge about how they function (Mearsheimer, 1994: 10; Wendt, 1995: 73). The ontological difference, therefore, lies in the fact that constructivism assumes that international structures are objective, but still based on intersubjectivity and fundamentally based on a set of ideas (Wendt, 1995: 74).

Intersubjectivity, norms and rules

Kratochwil and Ruggie (1986) criticised the conservative theories for not being able to account for the behaviour of actors within a specific international regime in the international system; neglecting the element of intersubjectivity causes the conservative (positivist) theories to fall short of understanding how international regimes such as the General

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Agreement on Tariffs and Trade (GATT, predecessor to WTO) function (Kratochwil & Ruggie, 1986: 765). With regards to norms, the authors treat them as complex elements influencing behaviour; depending on the strength of the norm it can "guide", "justify", and "inspire" behaviour. Norms must be an integral part of explaining behaviour, or changes in the behaviour of actors in international relations, although not treated as measurable variables (Kratochwil & Ruggie, 1986: 767, 768). Koslowski and Kratochwil (1994: 216) elaborated on the importance of studying norms in attempting to explain actors' behaviour in international relations, through the study of the Soviet Union's demise. Using the steps taken by Mikhail Gorbachev as an example, they illustrated how the changes of rules and norms in the Soviet political system led to the collapse of the entire Soviet Union (Koslowski & Kratochwil, 1994: 216).

As this background chapter so far has shown, the usefulness of constructivism lies in the ability to explain changes in the international system, based on its understanding of actors' behaviour, the basis of international structures, shaping identities and the basis of interests.

Finnemore (1996) argued that the study of norms in international relations introduced serious challenges to the frameworks of conservative theories. Her approach to international institutions is of a sociological nature and in this article she does not identify herself as a constructivist, although her later work would place her in the constructivist camp. Sociology's concept of institutionalism is useful because of its deep understanding of the makeup of international institutions; not only does the approach argue that institutions matter, it provides a comprehensive definition of what an institution is (Finnemore, 1996: 326). This approach locates the structure in the centre of its ontology; it is a cultural phenomenon that gives rise to states, markets and bureaucratic organisations as well as to the capitalist system itself (Finnemore, 1996: 333). Finnemore argued strongly for the case of constructivism in her articles written with Sikkink on norm dynamics (Finnemore & Sikkink, 1998, 2001).

Norm definition

Finnemore and Sikkink define norms as standards of appropriate behaviour; a distinction is made between the constructivist understanding of human behaviour to that of sociology; the former speaks a language of norms while the latter speaks a language of institutions (Finnemore & Sikkink, 1998). It is important to study norms because norms are integral in defining the rules of the game; in an IR context norms need to be taken into account because of the role they play in international rules and regulations The behaviour of states is strongly

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affected by existing norms; norms frequently act as regulatory components, limiting the states' options for action (Finnemore & Sikkink, 1998: 894). Norms regulate behaviour on the basis of what is considered to be *normal* and *appropriate* behaviour in the international system. While the conservative theories claim that the international system functions through a balance of power, the constructivist approach claims that the system is driven by the international distribution of ideas; there is a high degree of shared understanding among states and other international actors, and a broad consensus on values and expectations (Finnemore & Sikkink, 1998: 894). However, no matter how strong a norm may be, it is not written in stone. The shared understanding of appropriate behaviour changes, and therefore the structure and dynamics of the international system changes along with it. According to constructivists, systemic and material changes come as a result of ideational change (Finnemore & Sikkink, 1998: 894).

Both approaches are useful in their own distinct way; the norm language help narrow down single standards of behaviour while the language of institution elaborates on how rules are structured and how they interrelate. Different types of norms are also presented in this article; regulative norms translate into constraints on behaviour, while constitutive norms lay the foundations for new and actors, interests and categories to emerge (Finnemore & Sikkink, 1998) Furthermore, their article makes a distinction between domestic and international norms; however, they note that these two types of norms are deeply intertwined; a norm can begin on the domestic level and cascade through to the international system.

The norm life cycle

Finnemore and Sikkink ask how norms emerge and how do they evolve? Through which processes do norms affect the behaviour of state and non-state actors? What are the conditions in which norms will matter? They raise these questions in order to find out how norms shape and guide behaviour on the international level. In order to account for changes in the international system, the authors apply the concept of the norm life cycle: norm emergence, norm cascading and norm internalisation (Finnemore & Sikkink, 1998). The two first stages are highly important, because this is where one is able to identify who the key actors are with regard to the promotion and implementation of the norms in question. In the first stage, norm *entrepreneurs* focus on gathering actors who can strengthen the norms and getting them to reach the tipping point, *cascading* the norms into the next stage. The collection of necessary actors is defined as having to reach a *critical mass*, which is extremely important in further

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increasing the norm's influence (Finnemore & Sikkink, 1998: 901). In the early stage of a norm's life cycle domestic influences are strongest, while when the norm becomes institutionalised on an international scale, the domestic influences will be weakened (Finnemore & Sikkink, 1998). Before elaborating on the connection between the norm life cycle and the financialisation of the capitalist system, the study will present a few of examples of other norms that have impacted the international system. The study presents these examples in order to illustrate the explanatory strength of Finnemore and Sikkink's theory.

The end of the Cold War

The breakdown of the Soviet Union in 1991 came as a surprise to many politicians and IR theorists in the West, and led to major changes in the international system; the bipolar system that had characterised the Cold War era ended and the West was now the most dominant force in the international system. A shift of this magnitude created difficulties for the explanatory ability of conservative theories (Risse-Kappen, 1994: 185). The structural changes that occurred in 1991 must be understood through the role of ideas and how they have the ability to affect material power structures (Risse-Kappen, 1994: 186). The role of ideas is closely connected to the role of norms. In the case of the end of the Cold War, Risse-Kappen focused on the ability of transnational networks to influence policymakers in the Soviet Union, the USA and Germany. These networks promoted liberal internationalism, increased control of arms, collective security, and different understandings of how to promote military defence (1994: 187). In sum, the *norms* of liberal internationalism, or liberal institutionalism, strongly influenced the prevailing material power structures, bringing about major changes in the approach of the abovementioned countries to foreign policy. But it should be noted that the influence of these transnational networks in each of the domestic political systems can be measured very differently (Risse-Kappen, 1994: 187, 188). In his conclusions Risse-Kappen did not explicitly argue for the theory of constructivism in IR theory, but rather criticised the conservative theories' lack of understanding of how ideas play a central role in determining policy decisions and outcomes (1994: 213). However, there can be little doubt that the end of the Cold War offered the opportunity for constructivism to establish its theoretical and explanatory significance in the field of IR theory. Domestic norm shifts, in this case in the Soviet Union, first influenced domestic political structures and then moved on to influence global political structures i.e. the ending of the Cold War (Finnemore & Sikkink, 1998: 890, 891). The following section touches on how opponents of the South African apartheid regime

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spread those norms that emerged in South Africa cascaded onto the world stage and eventually led to an international resistance movement and trade boycott of South Africa.

South African apartheid

Transnational networks promoting norm change also played a major role in ending the apartheid regime in South Africa, showing that "norms, independent of material considerations, are an important factor in determining states' policies" (Klotz, 1995: 451). Norm change with regards to South Africa must be explained from several angles and many different factors led to the end of apartheid; however, one highly influential component was the extensive international economic boycott of the apartheid regime, which was extended to include military and cultural boycotts (Klotz, 1995: 451). In the apartheid regime the norm was to oppress any ethnic group that was not considered "white". The norm change entailed the acceptance of elevating the other ethnic groups to the position of the white ethnic group, leading to a complete restructuring of the South Africa political, economic and cultural system, officially ending the apartheid regime in 1994. This change came about as a result of the influence that South Africans opposed to apartheid had in transnational networks. The advocates for the international boycott founded their argumentation upon the grave injustice of treating some ethnic groups as less valued than others. Hence, support for the prevailing norm, which was racial *equality*, meant that the South African apartheid regime had to be boycotted, because trade with such an oppressive regime would be seen as acceptance and support of the *abnormal*, i.e. racial *inequality* (Klotz, 1995: 451, 452). Again, the dismissal of the role of norms by conservative theories rendered them unable to account for the structural change that occurred in South Africa in 1994. Furthermore, Klotz pointed to the tendency of conservative theories to assume that the USA would have to be an integral part of any major norm shift in the international system due to its hegemonic power, but in the case of South Africa the system's most powerful player was merely a supporter rather than a leader (1995: 452). Norm entrepreneurs operating through transnational networks, far outside of the US policy-making body, were the ones responsible for making the international community apply pressure on the apartheid regime through a boycott campaign, which turned out to be an important factor it bringing the regime closer to the end (Klotz, 1995: 452).

Norm dynamics in the international system

By focusing on the aspect of norms in political science, more specifically IR theory, the study has examined and explained the dynamics of international institutions, the changes that occur

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within them and how this relates to the processes of change in political systems. Moreover, norms can be understood as behavioural rules that influence material structures (Finnemore & Sikkink, 1998: 891). Nee defined them as informal constraints that function as facilitating measures in both political and economic activity – activity and performance in economics and organisations can only be sufficiently explained when one examines formal constraints such as legislation, regulations, property rights, the state and contracts along with norms of behaviour (1998: 85). If this understanding is not developed, a number of problems can arise; scholars who do not focus on the link between informal and formal constraints can potentially face the problem of indeterminacy (Nee, 1998: 85). In the context of policy creation, norms serve as important guidelines. According to Mintrom and Norman (2009: 656), the actors in international institutions are becoming increasingly able to understand how norms function and therefore are more able than ever to introduce change based on their deep knowledge of how the norms guide institutions.

Axelrod's contribution to norm theory brings us back to the one of the most common discussions in IR, namely the claim that the international system is an ever-lasting anarchic structure. According to him, a norm is based on three concepts: expectations, values and behaviour. The conservative theories are right when they argue that conflict has a strong presence in international relations. However, a norm can be a powerful tool to regulate conflict among the actors (Axelrod, 1986: 1095). Furthermore, the conservative theories are wrong when they assume that actors are completely rational in their behaviour. They act only with a limited rationality and they do not have access to all the information; therefore their behaviour will be guided by what is considered to be *normal*. Norms introduce predictability and stability into international relations, which makes them a very powerful force (Axelrod, 1986: 1095). "A norm exists in a given social setting to the extent that individuals usually act in a certain way and are often punished when seen not be acting this way" (1986: 1097). In order to illustrate the power of norms Axelrod used the example of how President Nixon not only broke the formal rules in the form of US law when he attempted to bug the Democratic Party's headquarters at Watergate office complex – he also broke the informal rules of politics (1986: 1095). As president, he had committed a felony for which he had to be held responsible, but his credibility as a leader was also forfeited in the eyes of the public. It was therefore the combination of breaking formal and informal rules that forced him to resign the presidency (Axelrod, 1986: 1095).

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So if norms are so important, how is it possible to recognise one when we see it? They are not material structures, nor are they concrete policies; they offer guidelines for scholars of IR to look "…inside social institutions and considering the components of social institutions as well as the way these elements are renegotiated into new arrangements over time to create new patterns of politics" (Finnemore & Sikkink, 1998: 891). Reaching acceptance of a particular policy has to entail a certain degree of shared moral assessment, i.e. acceptance of what is good and sound by moral standards. This raises the question of how widely accepted a norm can be – a norm can be accepted on a domestic level, regional level or a global level. The process of acceptance can be explained by applying the theory of the norm life cycle: norm emergence, norm cascade and norm internalisation (Finnemore & Sikkink, 1998: 892). Before going into the various stages of a norm's life cycle, it is helpful to examine the link between international and domestic norms, because the link is not as straightforward as it might appear at first glance; the actors that advocate for a specific norm might turn to the international arena in order to gain acceptance for a norm advocated at the domestic level. In other words, the norm game is often played on two levels simultaneously (Finnemore & Sikkink, 1998: 893).

Norm emergence

In the first stage of the norm life cycle on finds two main concepts: norm entrepreneurs and organisational platforms. The entrepreneurs are the individuals who introduce and drive the norm forward. They have certain strong convictions about an issue and what ought to be the desirable behaviour in connection with that issue, which they will attempt to persuade others to follow. In other words, they are the norm leaders. Eventual successful norm internalisation will depend on whether they can persuade other actors to become norm followers and eventually norm leaders themselves (Finnemore & Sikkink, 1998: 897). Behind the emergence of a norm are powerful agents who have strong convictions about how to behave in their community. Finnemore and Sikkink identify these agents as norm entrepreneurs; examples would be Henry Dunant, the creator of the Red Cross, and Susan B. Anthony, an advocate of suffrage for women in the USA (Finnemore & Sikkink, 1998: 897). The norm entrepreneurs can either introduce an entirely new issue, or suggest new amendments to an already existing one. Either way, the entrepreneurs will attempt to create enough attention around the issue so that they can create potential followers. In order to make the issue attractive to the broader public, the issue must be framed or sold in a particular way. This is where the importance of language becomes evident (Finnemore & Sikkink, 1998: 897). In

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order to persuade others, the norm entrepreneurs use a particular language in order to convince people to become norm followers; this is a conscious effort because of the competition norms face with other conflicting norms. The success of the norm, i.e. norm internalisation, depends on several aspects. How powerful are the existing norms that they are trying to replace or amend? Do they find themselves in positions of power? The answers to these questions will naturally vary depending on which norms have been subjected to interrogation. The example of the suffragette movement illustrates how the norm entrepreneurs found themselves outside of the traditional power structures, which formed the very basis for the suffragette cause (Finnemore & Sikkink, 1998: 897). Regardless of whether it is a new norm that is introduced or an amendment to an existing norm, it never enters a vacuum; norms emerge into a space where they will not only be challenged, but also be challenged by the norms that already exist (Finnemore & Sikkink, 1998: 897). Additionally, the norms advocated can either meet the standard of appropriateness that have been defined by preceding norms, or the agents can challenge existing norms by being "inappropriate" in their approach (Finnemore & Sikkink, 1998: 897). Ideational commitment is defined as the main driver for the agents, because the norms carry a set of ideas and values that the agents subscribe to or feel passionate about. In order for the entrepreneurs to gather the support they need, the right organisational platforms must be utilised.

Norm entrepreneurs often make use of domestic and international structures, which can be material structures within a domestic political system or act through international institutions that are relevant for promoting the norm in question (Finnemore & Sikkink, 1998: 897, 898). Large multilateral institutions such as the UN, the World Bank and the International Labour Organisation (ILO) are examples of such platforms. While these are formal international institutions, the entrepreneurs operating within them are able to use the institutions to promote certain norms that coincide with their convictions. Additionally, the norm entrepreneurs must also consider the influence of domestic institutions in the form of the state. Actors within states must be persuaded in order for the norm become further socialised; however, that depends on the strength of the state in question, because weak states can be persuaded or even coerced into following the norms promoted by the international institutions. States such as the USA are powerful enough to withstand pressure from both international institutions and other states (Finnemore & Sikkink, 1998: 899, 900). This makes the USA a critical state to get on board in order for the norm to be further socialised and eventually internalised. It belongs to a larger group of powerful states that need to be convinced by the norm entrepreneurs;

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Finnemore and Sikkink defined this as *critical mass* – a concept that illustrates when the norm reaches a tipping point and cascades into the next stage (1998: 901).

Norm cascade

Cascade occurs when the tipping point for the emerging norm is reached. In the cascading process the norm comes into close contact with both transnational and international organs, resulting in a broad process of socialisation that aims to increase the number of norm followers. Additionally, norm cascade also entails turning those actors that resist the norm into following the norm (Finnemore & Sikkink, 1998: 902). The socialisation process is a broad and complicated process in which the norm entrepreneurs will apply different tools in order to convince actors, such as combining incentives and praise with material sanctions and coercion. In other words, a large part of this process is conducted through diplomacy on the state and international levels (Finnemore & Sikkink, 1998: 902). The more states that endorse the norm, the further it cascades. On the international arena peer pressure is often a strong force. A high number of endorsements tend to increase the legitimacy of the norm. Because going against the collective often have severe political and economic consequences. Feeling part of a group, requiring a sense of belonging, is important for most states (Finnemore & Sikkink, 1998: 903). It is therefore crucial for the norm entrepreneurs to capture the support of a critical mass of people; this involves persuading powerful actors, who have the ability to put more weight behind the norm; they increase the sheer number of followers, which in return increases the legitimacy of the norm.

In order for the norm to cascade and capture other states, it must be appealing and conducive to meeting their development goals. Moreover, state identity plays a significant role in this process. If the norm entrepreneurs advocate for, say, a particular economic norm such as free trade, then one can characterise this norm as liberal. This is important to understand, because it increases the chance of norm cascade because many powerful states subscribe to this particular ideology (Finnemore & Sikkink, 1998: 902). One example is the development of free market policies in Japan during the 1970s and 1980s – this development occurred parallel to an increased focus on the militarisation of Japan (Katzenstein & Okawara, 1993: 85). During this period Japan entered into a partnership with the USA, when it would focus on updating and expanding its military capabilities. However, Japan was also becoming a powerful player in the global economy as a result of its technological innovation and expertise. This led most Japanese to remain sceptical about military expansion, which could

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possibly include acquiring nuclear weapons, because this could harm the economic relationship it had created with other states. Social and legal norms led the public sphere to favour a focus on economic expansion before expanding military capabilities (Katzenstein & Okawara, 1993: 105, 115). The authors concluded that the Japanese military sector was subordinate to the economic and political ambitions of the Japanese state, illustrating how social and legal norms shape the actions of a state.

Norm internalisation

If the norm is powerful enough, it will cascade so far that it eventually becomes internalised. In other words, the norm becomes part of daily life and therefore ceases to be questioned (Finnemore & Sikkink, 1998: 904). Norms like these are often the most interesting for IR scholars, because they have to actively challenge mainstream thinking and critically interrogate how a concept can become so powerful. An example of such a norm is free trade or capitalism itself. Even though there are a number of theories that argue against the capitalist ideology, it is such a powerful and not to mention integral part of Western culture and economic activity that is largely taken for granted. In fact, thinking about economics in a different way than the capitalist approach is still today viewed as quite a controversial approach to economics (Finnemore & Sikkink, 1998: 904). What does it take for a norm to become this powerful? In order to answer this question, one must return to the process of socialisation; one powerful mechanism for this is professional training (Finnemore & Sikkink, 1998: 905). All professionals receive a particular mode of training in order to be equipped for the working environment. This fact is not often reflected upon, because of the very strength of the norm in question, but the type of training a student of economics receive will encourage a strong normative bias. Graduating from one of the many business schools in a Western country usually means that the student will approach economic issues through free-market thinking, focusing on the promotion of privatisation, deregulation and marketisation (Finnemore & Sikkink, 1998: 905). Another example is the socialisation process that took place in Europe after WWII, when Germany and France initiated the project of creating a unified Europe. In order to do so, the identity of each nation-state had to be changed; the norms of European integration and cooperation transformed the identities of the states within Europe. As Wendt put it, the European nation-state of the 1990s looked very different from the one in 1955 (Wendt, 1992: 418). Norm internalisation also comes from repeating the normative behaviour over and over until it becomes normalised and habitual (Finnemore & Sikkink, 1998: 905).

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Strategic social construction, historical context and rational actors

Constructivism as a theory often gets treated as an opposing theory to the conservative theories, and rightly so in many aspects. One of the reasons for this can be attributed to the tendency to focus on a material ontological approach to IR by many scholars within the frameworks of the conservative theories (Finnemore & Sikkink, 1998: 910) However, the conservative theories do not have a monopoly on the concept of rationality; it is important to consider the link between norms and rationality. The steps they take must ensure that the norms they advocate should be seen as rational actions, because they are part of a greater plan to strategically *construct* a particular social reality within which their particular norms can be further implemented. The actions taken by these entrepreneurs are, in other words, highly maximising utilising actions (Finnemore & Sikkink, 1998: 910). What constructivists are primarily concerned with is to map out how the rational preferences of the entrepreneurs were formed prior to their decision-making process (Finnemore & Sikkink, 1998: 910). Political, economic and cultural realities also play a significant role in whether a norm will be successfully implemented or not. In times of crisis such as economic depression or war, old norms are likely to be challenged by new norms and ideas (Finnemore & Sikkink, 1998: 909). In the 1970s the Western economies experienced a severe recession and the oil crisis in the Persian Gulf led to major changes in economic policy for most Western states. The norms of the free market, banking and finance become more prominent in the era that followed this decade through a process of globalisation. Major changes were made to the structure of political and economic institutions in the USA and Britain, which would lead the world economy into a new era of financialisation of the capitalist system (Stiglitz, 2003: 12, 13). Furthermore, there are norms that are so rigid that they are able to withstand external shocks such as an economic crisis. Chapter 4 will cover this important point by illustrating how the ideational structure of finance capitalism remains as strong as ever, despite the global financial meltdown that occurred in 2008, causing a worldwide economic recession. Although there was a brief period of Keynesianism in both Europe and the USA, especially with regard to running deficits in order to stave off rising unemployment and put the state back in the driving seat in order for it to manage the economy (Cahill, 2011: 479–481). However, the norms of finance are so internalised that they have become very difficult to challenge. Initially the bailouts were seen as sound Keynesian moves, but when it became clear that the reckless investment banks and the other financial institutions that needed saving took the money for themselves and let their customers fend for themselves, one slowly began to realise

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just how powerful Wall Street still is. Western governments protect their operations, i.e. they are still the winners in this financial crisis. Who are then the losers in this situation? Ordinary Americans, because a large part of the bailout packages were funded by the ordinary taxpayers (Mogulescu, 2014).

Conclusion

In this chapter the study has worked its way through the evolution of the IR discipline, examined the role of constructivism and its relationship with conservative theories, and finally presented a comprehensive description of the norm life cycle theory. It has done so in order to demonstrate the utility of a particular IR theory to account for the important changes that have occurred in the global system in the post-Cold War era. Furthermore, the chapter has provided an elaborate definition of norms, which has been used to illustrate the strength of the norm cycle theory in explaining the changes that occur in international institutions when new norms are introduced. Moreover, through the theory's focus on norm entrepreneurs, the study is able to identify key actors who have advocated for the interests of finance in the post-Cold War era. The chapter has discussed how constructivism developed as a theory parallel to the breakdown of the Soviet Union, leading to an early demonstration of the theory's utility, specifically in this case its ability to explain major changes in the international system, because the geopolitical division that had existed for about half a century between the USA and Soviet ended in 1991. Until then, the structure of the world into two distinct camps had been viewed as an objective fact (Guzzini, 2000: 154). Constructivists argued that the security dilemma was not an inevitable fact that states had to take into account, and changes in policy for the Soviet Union led to major structural changes in the international system. Constructivism was able to explain this better than the conservative theories were, because its basic premise is that change is an integral component in the system (Guzzini, 2000: 155). It could offer this explanation because of its analytical approach; as an interpretive theory it focuses on the meaning behind the existing material structures in the international system, and it argues that states and international institutions embody specific social values and meanings (norms) which in turn determine their rules and frameworks (Finnemore, 1996: 327; Neuman, 2011: 101). The following chapter will apply the norm life cycle theory to the process of financialisation, identifying, describing and explaining the power of norms in driving fundamental change in both national and international systems.

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CHAPTER 4

The norms of finance

Introduction

In this chapter the study attempts to explain the process of financialisation by applying a constructivist lens. It describes how the process started by looking at the first stage of the norm life cycle: norm emergence. Moreover, the study identifies a number of individuals as the norm entrepreneurs for finance. This chapter utilises the norm life cycle to describe, identify and explain the norms, values and institutions that finance has created in the post-Cold War order. This study has examined the evolution of finance, investigating how the financial sector has become extremely powerful in both the US economy and in the global economy. Powerful figures from major financial institutions on Wall Street such as Alan Greenspan and Robert Rubin entered political office, championing the norms of finance, advocating an ideology that would fundamentally change the structure of economic activity in the decades that followed. These key individuals are identified as norm entrepreneurs (Finnemore & Sikkink, 1998: 896). The structure of this chapter is based on the three stages of the norm life cycle theory, where the evolution of finance is identified, described and explained through the stages. Additionally, this chapter examines the role of international financial institutions such as the IMF and the major investment banks on Wall Street such as Goldman Sachs in the global financial and economic crisis of 2008-2009. The useful of the theory of constructivism is demonstrated through explaining how normative behaviour has the ability to be translated into material structures, when championed by norm entrepreneurs. By applying the theory of the norm life cycle the chapter explains how a major shift in normative structures led to a financialisation of the capitalist system. Moreover, this links the study to the research questions of how and why finance emerged as an important form of economic activity in the global system, and the identification of individuals that champion global financial governance in the global economy. Closely linked to the evolution of finance is the increased instability in the global financial system; the chapter uses the financial crisis of 2008-2009 to demonstrate how resilient the norms of finance have become.

In the 1980s bankers and other operators in the US financial sector suggested new amendments to the capitalist system – less regulation was essentially the norm that entrepreneurs started out with when pushing for the implementation of new norms of finance in the greater economic system (Finnemore & Sikkink, 1998: 897; Germain, 2010: 2).

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Powerful players in US politics such as Alan Greenspan, Robert Rubin and Lawrence H. Summers will be identified as some of the many champions of finance through the 1980s until the crash occurred in 2008. It will be argued that these norm entrepreneurs are still advocating against increased regulation of financial markets and the chapter will illustrate how they were able to get themselves into positions of direct political power while still retaining strong ties to the financial institutions they were supposed to oversee (Karabel, 2013; Klein, 2013). The influence of finance in the US economy became so strong that the norms *cascaded* further onto the world stage, where they have come to largely define the practices of international banking, exchange rate regimes and perhaps the most important development of them all, namely governing how national authorities should operate in their own economies, i.e. the globalisation and liberalisation of financial markets (Finnemore & Sikkink, 1998: 902; Germain, 2010: 2). Finally, the chapter discusses the degree of internalisation the norms of finance eventually reached by becoming part of daily life and unchallenged in the sense that they largely defined how economic activity would be conducted on a macro scale, i.e. global financial governance – although this was also not without its setbacks, illustrated by cases such as the East Asian crisis in 1997-1998 (Germain, 2010: 72, 73).

Norm resilience has been demonstrated by the absence of major changes that should have occurred after the 2008-2009 global financial crisis. Nevertheless, steps have been taken to try and impose more regulation onto the financial sector and make it less prone to risky investments. One of the steps taken has been to try and shift more of the risk over to the financial institutions themselves by pushing for higher capital requirements, i.e. making the banks increase the money they have in reserve when making investments (Tropeano, 2011: 51). One example of this can be found in the USA – legislators approved the Dodd Frank Act in 2010. However, the Dodd Frank Act can also serve as an example of how vast the financial system has become; the Act proposed increased regulations with regards to the major Wall Street financial institutions such as JPMorgan Chase, but what the Dodd Frank Act failed to cover was the issue of shadow banking – the major financial institutions have ties to non-banking institutions that offer everything from mortgages to car loans, a form of banking which remains completely unregulated (Tropeano, 2011: 46). As a result, the Dodd Frank Act can only be seen as a weak challenge to the norms of finance. Another challenge to these rigid and powerful norms can be found by looking at the Greece fiscal crisis of 2015, where the Greek population have challenged the program of austerity measures and fiscal constraints (Argitis, 2012; Feffer, 2015). However, it is too early to determine whether such challenges

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will realistically bring about major structural and ideational changes. At least for now, the norms of finance seem to be prevailing, but interestingly enough that is how norms operate – one cannot think that they will be challenged or even rejected, until they are.

Norm identification

The years 1979 and 1980 act as markers of a new era in the global economy through the elections of British Prime Minister Margaret Thatcher and US President Ronald Reagan, when the norm entrepreneurs of finance were able to capture the most essential positions of power. Finance's political, economic and cultural influence was now about to become formalised through state policies and eventually through the influence of international institutions such as the IMF, the WTO and the World Bank. These international institutions became the most important engines for norm cascade and can be closely linked to the concept of globalisation – the increased connectivity between the world's regions made it easier for the norms of finance to cascade onto the world stage and then spread from there into national economies, often with grave consequences for the economies located in the developing world (Finnemore & Sikkink, 1998: 909; Stiglitz, 2003: 7). How did matters get to this point? How were these norm entrepreneurs able to achieve powerful political office in the USA and in Great Britain?

The increased influence of international banking, the removal of regulation and debt-driven economic growth, which constitute the process of financialisation of the capitalist system, is an extremely elaborate process that has been going on since the beginning of the 1970s (Strange, 1997). However, the norms of finance are even older than that. Prior to the outbreak of WWI, the world was more globalised than it was after WWII. Only now, in the 2000s, is the world approaching the level of globalisation of the early 1900s. The Great Depression of 1929 killed a large part of the financial dominance in the global economy, and the world economy adopted Keynesian policies focusing on full employment, fiscal deficits and regulation of the financial sector in order to deal with the rampant destruction caused by financial speculation and volatile economic policies (Minsky, 1977: 22; Terzi, 2010: 1). From a constructivist perspective, major changes took place in both the US economy as well as in the global economy during the Reagan/Thatcher era; a new set of norms emerged under the umbrella of neoliberalism. These norms, from here on referred to as the norms of finance, elevated the role of banking and trade in financial instruments in the larger economic system. A high-risk/high-reward mentality would make the operators on Wall Street extremely

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powerful, not to mention wealthy, in the decades that followed. Wall Street, which this study uses as an allegory for the larger financial system, was about to become the world's largest casino (Strange, 1997: 1).

Norm emergence

In the Wall Street casino the most powerful players are the big banks (Strange, 1997: 1). During the rise of these banks norm entrepreneurs working within the banks and within the corridors of Washington DC worked systematically for the removal of regulatory constrains put in place after the Great Depression ended in the 1930s. According to Strange, this process was also a process to reduce the control politicians had over their national economies (Strange, 1997: 3). This development ties directly into the other component of this study, the various financial crises that have occurred in the global economic system since the end of the Cold War. Strange argued that the increased role of finance has brought with it an increased amount of uncertainty into the international system, thus making it more vulnerable to crises (1997: 3). There are some important distinctions between the ways a casino operates compared to the dynamics of international finance; the casino is highly regulated and all actors participating in the games offered by the casino are aware of an ever-present risk, because that comes with the territory. In international finance however, regulation is a much bigger problem; the essence of neoliberalism is to have a deregulated financial sector and in many cases the people put in charge of overseeing financial activity in order to regulate it do not have the necessary knowledge of all the different games that are being played; hence they cannot regulate what they cannot understand (Cassidy, 2009: 13).

In the contemporary global system, the role of production has changed significantly and financial instruments have increasingly started to determine investment activity (Minsky, 1977: 21). Through the increasing dominance of neoliberal ideology, finance has gradually increased in importance for the global economy and the position of labour has been significantly weakened (Cox & Schechter, 2002). Parallel to the financialisation of the economy, norm entrepreneurs were entering positions of power in the US federal government. Executives in the investment bank Goldman Sachs, namely Robert Rubin and Henry Paulson, both served as Secretary of the Treasury for the Clinton administration and the Bush administration respectively (Foster & Holleman, 2010: 13).

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Financial deregulation

Deregulation must be seen as an integral part of the larger collection of financial norms. During the Reagan administration a parallel process occurred during which state actors' control over domestic economic institutions was reduced, which meant that other forces were now becoming more influential. In critiquing the Reagan administration, the rise in inequality in the USA is usually the main focus; however, the administration can be found guilty of doing a lot more harm than this. It was under President Reagan that financial deregulation started to become a serious policy focus for the US government (Krugman, 2009). In 1982 President Reagan signed the Garn St. Germain Depository Institutions Act, with the support of Congress. It was, in the president's own words, "the most important legislation for financial institutions in the last 50 years" (Krugman, 2009). A number of rules were broken and new legislation suggested by Reagan laid the groundwork for the catastrophic situation that occurred in 2008, taking the US economy and eventually the global economy into a deep recession. Wall Street started to make huge sums of money and it happened fast. The economist Charles Morris told a story about a friend who worked on Wall Street as a bond trader for the investment bank Merrill Lynch in 1970; this friend had to work at a second job in order to support his family, because what he made as a bond trader alone was simply not enough, but by 1986 he was "making millions of dollars" (*Inside Job*, 2010). In addition, Reagan's first Treasury Secretary was Donald Regan, former Chief Executive Officer (CEO) at Merrill Lynch. While Regan served at the Treasury, he stated, "Wall Street and the president do see eye to eye. I have talked to many leaders of Wall Street and, they all say [that] we are behind the president 100 percent" (quoted in *Inside Job*, 2010). During the Reagan administration the US economy was running on an unusually high deficit in peacetime. However, it was not just the public debt that was raised significantly; an even higher private debt was accumulated during this period, courtesy of financial deregulation.

The amount of deregulation that occurred while Reagan was president provided the norm entrepreneurs of finance with everything they needed in order for their norms to cascade further into the powerful international institutions IMF, WTO and the World Bank. And it all happened at the expense of the American taxpayer (Krugman, 2009). The taxpayers' behaviour also changed during this period, as they were borrowing way beyond their means in order to realise the dream of owning a house. Credit became one of the most important engines for growth, radically changing the norms of lending (Finnemore & Sikkink, 1998: 896; Krugman, 2009). The sober New Deal policies that were put in place after all the

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destruction caused by the Great Depression were largely ignored or forgotten about. In order to increase economic growth, Reagan preached the reduction of the government's control over the economy, letting the market forces run free (Krugman, 2009). In 1987 neoliberal economist Alan Greenspan was appointed as the Chairman of the Federal Reserve, America's central bank. The appointment serves as a prime example of how an important norm entrepreneur for finance was placed in a position of power during the Reagan administration.

The entrepreneurs

Since the 1970s the ties between operators in the financial sector and politicians have strengthened. This is not a peculiar development; being concerned with finding the best way to achieve economic growth is on many people's minds. Common interests and professional relationships are highly important in the context of norm behaviour. This next section will elaborate on how closely knit and coordinated the operators in the aforementioned sectors have been and how that is connected to financial instability.

When discussing the role of the different norm entrepreneurs in finance, one cannot help but touch upon some of the methods they advocate in order to stimulate economic growth; it is especially the use of derivatives that has led to unprecedented growth over the last three decades. While the definition of derivatives varies, broadly speaking they are a type of financial instrument, a financial asset product created by financial markets that can be sold to investors; but derivatives are also aimed at minimising risk in financial transactions (Goodman, 2008; McKenzie, 2011: 205). However, they have brought an increased amount of instability and vulnerability to the entire economic system. In fact, several highly respected and experienced operators in the financial sector have warned against the use of derivatives as an engine for growth. One of the world's most powerful hedge fund investors, George Soros, refrains from using such financial instruments because he is convinced that very few, if any, understand how they actually work. Warren E. Buffet defined derivatives as "Financial weapons of mass destruction" (Goodman, 2008). However, what this next section will show is that the derivatives market has grown to be one of the most powerful industries in the financial sector, increasing from a small amount of registered profits in the 1980s to a $500 trillion industry in the 2000s, all under the supervision of the Federal Reserve Chairman Alan Greenspan (Neat, 2012).

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Alan Greenspan

Serving as chairman of the Federal Reserve, one of Greenspan's responsibilities was to monitor and regulate the activity of banks and other financial institutions. However, Greenspan believed that the market did not need much regulation, because the market forces themselves were the ones that were best equipped to make decisions about how to regulate economic activity, i.e. Greenspan was a firm believer in neoliberalism (Neat, 2012). He even stated that he was strongly influenced by the writings of Ayn Rand, the author best known for her writings on individual freedom and the tyranny of the collective (Goodman, 2008; Neat, 2012). In 2006, a year before the financial meltdown, Greenspan stepped down from his position as Fed Chair. During his reign the US economy had experienced an extraordinary increase in growth and he had at the same time managed to keep inflation down. However, because of his strong convictions about free-market capitalism, he and many of his supporters had ignored the warnings that other economists had started to issue about the possibility of a massive bubble in the housing market (Goodman, 2008). The housing market in the USA was one of the most important sources of growth for the financial sector, due to its ability to transform mortgages into financial assets. Because mortgages could be sold as assets, banks wanted to issue as many as they could while Americans wanted to own their own houses, this led to uncapped issuing of mortgages, which in return pushed up real-estate prices (Goodman, 2008; Gjerstad & Smith, 2009: 271, 272). Both the financial market and the Federal Reserve gambled on the notion that the rising housing prices represented a rise in real value; however, the building of houses could not grow parallel to the issuing of mortgages, leading to the significant increase in housing prices. When prices started to decline in 2006, it became clear how big a bubble this had become. And when it burst, it also became clear that a high number of lenders never could repay their loans, which resulted in defaults all over the country. Because of the close linkage between the housing market and the financial sector, the crisis in the housing market spread further into the financial system and laid the foundations for the financial crisis of 2008-2009 (Gjerstad & Smith, 2009: 269).

It is not difficult to understand the position taken by Greenspan, who prior to taking the position in government was an economist working on Wall Street, where high risk often equals high reward (Strange, 1997: 1). But the financialisation of the capitalist system had made everyone into gamblers, including the American taxpayer who had involuntarily become part of "global casino of high finance" (Strange, 1997: 3). During his time as Chairman of the Federal Reserve, Greenspan was the most powerful regulator in the USA, but

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he failed to fulfil the duties of his office by supporting the systematic deregulation of the financial sector. His stance on regulation shows that he protected the interests of Wall Street, not Main Street (Goodman, 2008). The social ties between all the different players in finance made for a serious problem with regards to accountability. Furthermore, while Greenspan served as Fed Chair, a particularly strong bond seemed to have been developed between the individuals occupying these three respective positions: the Secretary of the Treasury, the Chairman of the Federal Reserve and the bankers on Wall Street; institutional ties and friendship ties between the players on Wall Street and the politicians in Washington during this period became one and the same (Johnson & Kwak, 2010; Karabel, 2013).

Robert Rubin

The influential banker and Treasury Secretary has been described as the “man behind the curtain” with reference to his influence over US economic policy. He served as Secretary of the Treasury under President Clinton and is believed to have considerable influence in the Obama administration seeing that two of his protégés, Timothy Geitner and Jack Lew, are both members of President Obama’s economic team (Finkle, 2014). Rubin has also been accused of being a key player in laying the groundwork for the global financial crisis of 2008; before he started working for the government, he had worked for both Citigroup and Goldman Sachs, which are two of the most powerful firms on Wall Street (Finkle, 2014). During his position as Treasury Secretary for President Clinton, Rubin largely shaped the administration’s economic policy, later defined as *Rubinomics*: free trade, balanced budgets and widespread financial deregulation (Calmes, 2008). While critical of Rubin’s involvement in the financial sector, many journalists were optimistic about the seemingly radical change in government that everyone expected with the election of President Barack Obama in 2008, who promised to *change* the way financial institutions operate, with the focus on re-regulating Wall Street (Calmes, 2008). The situation today shows that this was not the case and that the Rubin alumni in Obama’s administration made sure that Obama would change his tune once he was sworn in as president (Scheer, 2012):

> Robert Rubin is considered a significant adviser to the Obama administration, and his protégés, led by Treasury Secretary Timothy Geithner, are still directing policy. It was Rubin who pushed through the reversal of Glass-Steagall, an act of betrayal of the public interest that was rewarded with obscene amounts of money when he ultimately took the job of leading the bank he made legal.

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Lawrence H. Summers

Better known in the media as Larry Summers, he served as top economic adviser to President Obama from 2009 to 2010. In 2013 Summers was the president's candidate for taking over Ben Bernanke's job as Chairman of the Federal Reserve (Herbst, 2013). Given Summers's track record in the financial industry, many expressed their scepticism about the president's choice; Larry Summers has been, and many believe still is, a big supporter of the *unregulated* use of derivatives (Herbst, 2013). He certainly has experience working with financial crises, overseeing the 1994 Peso crisis in Mexico, when he worked to ensure that big investment firms such as Goldman Sachs did not lose too much of the money they had invested. Summers was also involved in the East Asia crisis in 1997, where he and several other likeminded economists chalked the crisis up to a failure in confidence and not enough liquidity, not to the neoliberal policies of free capital flows and deregulation (Klein, 2013; Vinik, 2013). Moreover, Summers' role in the 2008-2009 financial crisis should be enough to make it clear that he is not the right man for the job; he lobbied heavily in favour of the big banks on Wall Street. Summers made sure that they were given the bailouts they needed without conditions of having to pay them back, going against the very ideology he was associated with; in neoliberal ideology the market should be able to kill off any weak participant, in this case the big failed investment banks, but Summers had a close relationship with these banks and therefore it was in his interest to rescue them (Klein, 2013).

Larry Summers has many strings to his bow. Before going to work for the government, he was involved in the very top leadership at Citigroup, one of the investment banks that received a massive government bailout. Summers has also made vast sums of money as a freelance speaker on financial matters for Goldman Sachs, JPMorgan Chase, Citigroup, Lehman Brothers and Merrill Lynch (Benson, 2013). After he ended his term as president of Harvard University, a position he got with the help of his mentor Robert Rubin, he went to work as managing partner for hedge fund DE Shaw & Co. In many eyes, including the researcher's, this does not inspire the confidence needed in the person serving as Chairman of the Federal Reserve. Summers is still very much a Wall Street guy, not a Main Street guy (Herbst, 2013).

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Norm cascade

During the time that the norms of finance cascaded onto the world stage, the widespread economic perils of the 1970s can be attributed to the growth of finance. Rampant speculation in foreign exchanges rates was devastating to economies in the developing world, but this fact actually demonstrates just how string the norms of finance are. Despite financial instability and crises, the norms of finance have remained resilient. Furthermore, the norm cascade caused fundamental changes to some of the major international institutions, especially the IMF.

While the world was highly dependent on the liquidity that the USA could provide after WWII through the Bretton Woods system, the world became even more dependent on the dollar after the system collapsed in 1971. Under Bretton Woods the dollar had been tied to the price of gold, thus making gold an important variable, but the dollar became the sole component in the new financialised world economy (Germain, 2010: 53). The dollar has been, and still is, one of the most important foundations of the global financial system. In the 1970s the world's economies craved US dollars in order to have enough credit, thus making the USA extremely powerful. But the USA needed to expand its supply and at the same time extend availability. This was done through the promotion of free capital flows. To sum up, two of the most important ingredients in the future global financial system was to be dollar dominance and free capital flows (Germain, 2010: 53). Along with deregulation, the free flow of capital is an integral component of the larger collection of the norms of finance. Norm entrepreneurs for finance in the USA started using the IMF as an engine for socialising states into accepting these changes (Finnemore & Sikkink, 1998: 903; Germain, 2010: 55). While Reagan is often mentioned in connection with free market ideology, it was President Richard Nixon who had earlier initiated the removal of restrictions on capital flows in 1974 (Germain, 2010: 54). What followed this development introduced by President Nixon were the massive expansion of international banking, the creation of huge transnational corporations and the systematic reduction of economic barriers across national borders. A term that has come to be closely connected with this particular development is globalisation (Germain, 2010: 54). The concept of globalisation is widely viewed as a positive development, which has brought about enormous economic growth and prosperity. This is true, but the flipside of this is often ignored, or at least not talked about as much as the upsides. This is because globalisation represents very particular interests, namely those of the norm entrepreneurs of finance (Finnemore & Sikkink, 1998: 897; Germain, 2010: 54).

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"What the financial community views as good for the global economy is good for the global economy and should be done" (Stiglitz, 2003: 195). This is how the former chief economist at the World Bank would describe the IMF's mode of thinking in the 1990s and 2000s. The norms of finance were so strong in the most powerful international economic body in the world that they had a blinding effect on the individuals working in the institution, leading the IMF to implement neoliberal policies regardless of how they were affecting the economies in the developing world (Stiglitz, 2003: 196). With the cascade of financial norms onto the world stage, international institutions such as the IMF went through a major restructuring process – new norms were about to fundamentally change the structure of the IMF (Finnemore & Sikkink, 1998: 898). As a product of the post-WWII world order, the IMF's structure was strongly influenced by the prevailing ideology of that era: Keynesianism. In its initial phase the Fund implemented *expansionary* policies, which included a strong emphasis on reaching full employment, encouraging further increases in government expenditure – and providing liquidity for governments that could not afford such expansionary policies on their own (Stiglitz, 2003: 196, 197). However, with the cascade of finance into the US economy the Fund's policies changed radically; the market fundamentalists came into positions of power and started to push for more *contractionary* policies in the developing world, with severe consequences (Finnemore & Sikkink, 1998: 898; Stiglitz, 2003: 197). The major restructuring of the IMF's policies serves as a prime example of how the norms of finance cascaded through important international institutions – and they in turn were able to largely define what was appropriate economic behaviour in international trade and banking (Finnemore & Sikkink, 1998: 903). States were forced to liberalise and open their national economies in order to meet the IMF's standard on international capital flows, ensuring the major Wall Street banks' lending and investment activities went way beyond the shores of Manhattan (Pauly, 1998: 115).

The radical change in the IMF's policies led to severe problems for developing countries: predatory creditors, widespread currency speculation and an inflow and outflow of hot money to mention a few. In fact, the IMF made sure that business was good for speculators as a result of its meddling in countries' exchange rates (Stiglitz, 2003: 198, 199). While the IMF clearly adopted free-market policies, its methods show clear signs of intellectual contradictions; if one takes a look at a basic textbook for understanding free-market economics, one will find that with regard to lending the risks of losing the capital lies with the lender should the borrower for some reason default on the loan. However, this is where the

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moral hazard problem arises in connection with IMF's approach; because IMF became an engine on which international finance and banking forces could rely, the risk no longer lies with the lender (Stiglitz, 2003: 201). When a crisis hit and the developing countries in East Asia or in Latin America were unable to repay their massive loans, i.e. risking default, the IMF provided economic assistance to them that came with very specific conditions attached; the creditors, in most cases Western investment banks and other financial institutions, were to be paid back in full, otherwise the assistance would not be provided. In other words, the norms of finance had cascaded so far into the international institution that it first and foremost catered to international banks and investors (Finnemore & Sikkink, 1998: 899; Sachs, 1998: 2) As a result, the risk of Western creditors losing their money was severely mitigated, thus providing very little incentive for these creditors to give much thought to whether the debtors were able to manage the loans the creditors would provide to them. At any rate, their money was safe (Stiglitz, 2003: 201). This show how international institutions such as the IMF, created to serve the interests of all the players involved, really only serves the interests of international finance.

Global financial governance

This section will examine how the multilateral institutions came to be integral players in the establishment of financial dominance in the global economy. Ramonet (1997) argued that the IMF, the WTO, the World Bank and the OECD could become a single supranational state, thus diminishing the power of real nation-states in the international system. He viewed this as a systematic and dangerous development, which reduced the power of social forces and increased the power of financial markets. Additionally, he argued that this supranational state was answerable only to the financial markets and therefore no state would be able to stop the increasing neoliberalisation of the world economy (1997). However, these institutions do not constitute a supranational state, because they are highly influenced by US foreign policy (Foster, 2007: 9). More importantly, they are engines serving a very particular set of norms and their powerful entrepreneurs. Johnson and Kwak provided a description of how the norms of finance cascaded through such institutions (2010: 39, 40):

> Through the experiences of 1997–1998, the U.S. Treasury Department and the International Monetary Fund (IMF) developed a game plan for handling financial crises: structural weaknesses such as a failing financial sector had to be dealt with immediately, without waiting for the economy to stabilize. Both directly and through their influence over the IMF, the key architects of U.S. economic policy—Treasury Secretary Robert Rubin, Deputy Treasury Secretary Larry Summers, and Federal Reserve chair Alan Greenspan—pressed crisis-stricken countries to liberalize their financial systems, increase transparency in their political systems, and model the governance of their corporations on the Anglo-American system (with a greater role for mutual funds and other institutional investors).

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As a result of the globalisation process that has taken place, economic integration is inevitable. However, one of the main problems the world has come to experience after global finance became so dominant is that economic globalisation has gone much further than political globalisation (Stiglitz, 2004a: 2). The norm cascade stage has focused on the integration of financial markets and if political globalisation had been at the same level as economic globalisation, this might have led to quite different developments. This is because economic globalisation represents only specific interests, that of finance (Stiglitz, 2004a: 3). The skewed representation of interest, or the dominance of these particular norms, can be exemplified by examining the structure of existing institutions; the power dynamics in these institutions do not reflect the current global balance of power balance (Goldin & Vogel, 2010: 2). In fact, the concept of global governance is more accurately a description of Western dominance over the developing world (Overbeek, Dingwerth, Pattberg & Compagnon 2010: 696, 697). Additionally, the concept has worked in favour of spreading the influence of neoliberal policies, including that of finance, across the entire globe (Overbeek et al., 2010: 699). However, that was not the original meaning of global governance.

During the old norm regime of Keynesianism, "global governance" was associated with a massive restructuring of the world order; the USA had been defeated in Vietnam and needed to withdraw its troops; the brutal right-wing dictatorship in Portugal began the process of withdrawing from its colonies in Africa. Widespread revolutionary activity in the Third World led to new regimes with a whole new prospect of ways to organise the international economic order, focusing on democracy and humanity (Overbeek et al., 2010: 697). In other words, many were looking to reduce or completely eliminate the existing world order in which the USA largely presided over the organisation of economic activity. But the cascade of financial norms would crush this prospect. As this study has shown, the new norm regime reflected a different reality; the norms of finance were the ones that came to define the new world order and it would be a world order that more than ever advanced the interests of the already existing economic elite. With the appointment of Alan Greenspan as Fed Chair in 1987, President Reagan chose an individual who was closely committed to deregulating the financial sector (Goodman, 2008). Reagan's fight against the Soviet Union is an important historical context for understanding how the norms of finance could cascade onto the world stage with such massive force; prior to the Soviet Union's collapse there was a clear alternative to free-market capitalism, which explains why so many revolutionary groups

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across the globe could be so optimistic about the changes that might occur in the international system. However, after the collapse of communism, free-market capitalism remained as the triumphant ideology (Overbeek et al., 2010: 698). This development cleared away any obstacles to the cascading of financial norms. Global governance caters to the unrestricted movement of capital, the right to private property and, most importantly, increasing control over the elements that could challenge these ideals, such as states and social forces (Overbeek et al., 2010: 699).

While the norms of finance already were deeply entrenched in many states in the West, they also had to be firmly applied to states in the developing world. This was done in the form of economic aid and structural adjustment programmes, disguised as economic assistance and reform. Third World and non-Western countries were being forced to participate in the global economic system in accordance with the premises of the Western global financial order. The connection between international finance and the Third World debt crisis can be put into the second stage of Finnemore and Sikkink's norm life cycle; the norms of finance cascaded through informal networks such as the Paris Club and the London Club, but the most important engine for norm cascading were international organisations such as the IMF (Finnemore & Sikkink, 1998). The effects of these financial norms have often had disastrous consequences for the debtor countries. This next section describes the cascade stage of the norm life cycle in detail by examining the role of the international financial institutions' role in destabilising the economies of certain developing countries. What happened in Mexico and in East Asia especially can also be used as a setup for explaining what happened a decade later with the global financial crisis.

Mexico 1994-1995

According to the neoliberal ideological mantra, Mexico had done everything right. It had privatised large formerly state-owned enterprises, removed trade barriers and other restrictions that could impede the new finance-friendly structure of its economy. What happened in Mexico during the early 1990s was described as a success story with regard to market reform (Stiglitz, 2004b: 215). However, in 1994 it became clear that Mexico had taken on more debt than its economy could handle; fearing that Mexico could not be able to honour the commitments it had made with creditors, investors started to slow the purchase of Mexican bonds, which only a year before were regarded as a sound investment (Cole & Kehoe, 1996: 309, 310). The Mexican financial sector collapsed the same year and this led the

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economy into a deep crisis. Why did this happen? The norms of finance had brought about rapid economic growth, but an increased level of instability in the Mexican economy overshadowed this development. Furthermore, the intense focus on liberalising trade, privatisation of state-owned corporations and widespread deregulation goes far towards explaining the perils experienced by Mexico in the later 1990s (Calvo & Mendoza, 1996: 236).

The IMF had to do something in order to avoid contagion, i.e. prevent the crisis from spreading to other countries in the region, so it undertook a massive bailout procedure, which included saving the Mexican peso from collapsing. The bailout package ensured that the creditors that had invested so heavily in Mexican bonds got their money back and the economy was eventually saved, all seemingly due to the swift and decisive actions taken by the IMF (Stiglitz, 2004b: 216). However, there are now strong grounds for doubting that the Mexican economy was kept afloat because of the actions taken by the IMF. Mexico was allowed to trade extensively with its powerful neighbour the USA through exports to American business, which could provide trade credit. It is therefore believed that the economy was kept alive by export-driven growth rather than the IMF bailout regime, which included harsh austerity measures as a form of saving money (Stiglitz, 2004b: 216). This did not stop the IMF and the financial elite from applying the same method when other crises presented themselves down the line. When a crisis appeared to be on the horizon, a bailout would be offered and this would eventually stabilise things so that business could go on as usual. This assumption is clearly aligned with the norms of finance and the neoliberal mode of thinking: providing more credit will ensure that market forces can take care for the rest. In the following cases the same mode of thinking will be examined, but they will also show how disastrous this approach became.

East Asia 1997-1998

When it became clear that the East Asian miracle would turn into a disaster, the leadership in the IMF assured everyone that it would just apply the same measures as it had done in Mexico (Stiglitz, 2004b: 217). The crisis would harm those who always get harmed when crises break out: those who had very little to begin with. This happened because the bailout money never reaches those who need it most; as in the case of Mexico, the bailout coming from the IMF went to the investors located outside of the borders of the country where the crisis occurred. Banks and other financial institutions in the USA and Europe that had both provided loans to

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the East Asian economies, as well as funded the currency speculation, were now being given their money back by the IMF (Stiglitz, 2004b: 217). Additionally, the coverage of the crisis in international media led markets to believe that this crisis was the result of poorly managed state capitalism, that the problem was created by domestic conditions such as corruption in East Asian banks or in the East Asian governments. However, most of the blame should be placed on the international financial system, promoting international capital markets which are highly vulnerable and prone to panic once they are perceived to be unstable (Radelet & Sachs, 2000: 105, 106).

The infamous adjustment programmes of the IMF only added more fuel to the fire and intensified both the panic and the reduction of confidence in the financial markets (Radelet & Sachs, 2000: 115, 116). One example of this was what happened in Indonesia, the country hit the hardest, which was told by the IMF to just push through the difficulties and do what was necessary, which was to reduce social welfare spending (Stiglitz, 2004b: 217). Even when the crisis was its height, Indonesia refrained from imposing capital controls on the advice of the IMF. The devastating effects of the IMF's adjustment programmes can also be illustrated by looking at how Malaysia and China avoided the perils experienced by Thailand, Indonesia and South Korea by refusing to follow the IMF's advice. Malaysia imposed capital controls, which succeeded keeping a large number of banks going under by keeping the interest rates low (Stiglitz, 2004b: 218). Korea experienced a recovery only when it started to ignore what the IMF prescribed, such as essentially nationalising the banks that had run into trouble (Stiglitz, 2004b: 218). Moreover, it has been suggested that the involvement of the IMF had a destabilizing effect, increasing panic among investors rather than decreasing it, exemplified with the case of Thailand (Sachs, 1998: 1). The IMF told Thai authorities that everything was wrong in the country's economy and therefore the IMF demanded swift and ruthless incisions such as budget cuts and the closing of banks, which in turn caused a massive downturn in the value of stocks and currency markets (Sachs, 1998: 2). It was only a year earlier that Thailand's economy had been held up as an economic miracle by none other than the IMF itself (Sachs, 1998: 1).

There is one highly important condition that Finnemore and Sikkink mentioned in connection with further norm cascade, and that is the issue with providing domestic legitimacy for the norms (1998: 903). With regards to Mexico and East Asia, they were weak states that could easily be influenced by the IMF's demands – the governments of these countries were in a position where they had to comply with the IMF's requirements in order to receive further

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economic assistance for stimulating their economies and continue to have access to the international market place (Monbiot, 2012). The latter requirement is often called the IMF seal of approval, which is highly sought after for getting continuous credit with investment banks (Strange, 1990: 261). This is the power of the IMF and the norms of finance. With regards to the norms of finance, however, the condition of domestic legitimacy can be argued as being irrelevant given the fact that critics of the IMF characterise its behaviour as imperialistic (Monbiot, 2012).

What happened in Mexico and East Asia was the implementation of certain economic and political principles – tailored according to the Washington Consensus (Stiglitz, 2003: 86, 91; Drezner & McNamara, 2013: 156). Furthermore, global financial orders are the "rules, norms and procedures that govern cross-border money and finance" (Drezner & McNamara, 2013: 156). Some of these procedures and norms are formal, while others are informal. The IMF, the G7 and the Basel process can be defined as formalised rules and norms that uphold the ideals of the contemporary global financial order. Through these institutions the norms of finance are allowed to cascade across national borders; trade is liberalised and tariffs are lowered, maintaining the US dollar as the international trading currency (Finnemore & Sikkink, 1998: 902; Germain, 2010: 53). Other informal rules can include the tradition of having a European as the head of IMF while the top executive of the World Bank will be an American (Drezner & McNamara, 2013: 157). What is clear when one examines the behaviour of the IMF and the World Bank in connection with the developing world is that it is always a skewed relationship. While it might seem that the international financial institutions are there to offer assistance to troubled economies, the fact remain is that there is a constant demand for policy change and amendment coming from the IMF especially (Helleiner, 1992: 782).

Then there are other networks created by the most powerful states in the global financial system in order to regulate and maintain these formal and informal norms and procedures; this is done through networks such as the G-7 and the G-20 (Drezner & McNamara, 2013: 157). While there are a number of differences between the two global orders, Bretton Woods and the Washington Consensus, Drezner and McNamara (2013: 157) consider the latter to be more concerned with a global impact. Through finance, the neoliberal Washington Consensus has diminished the importance of national macroeconomic policies and focused on open capital markets. This is important because when times are good and the economy is thriving, there is little questioning of these norms and procedures, but when a crisis hits, it becomes

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clear just how much they matter. Moreover, it becomes clear where the power is situated in terms of who is enforcing these norms and procedures (Drezner & McNamara, 2013: 158). There was a brief moment in 2008 where several national governments, including the USA, implemented polices of a Keynesian nature in order to handle the dire consequences of the financial crisis; however, market forces resisted this turn of events and made sure that most governments returned to harsh austerity measures and inflation control by the beginning of 2009 (Drezner & McNamara, 2013: 158). The norms of finance are very rigid. What happened in the early 2000s with the major scandals of Enron and WorldCom serves as example of just how rigid the norms had become.

Domestic issues: Enron and WorldCom

Instability in the market place was both a domestic and an international issue. During the 2000s the US economy experienced the reverse side of the coin of the neoliberal growth model; the turn to financial instruments and the promotion of growth through credit would lay the foundations for a number of scandals connected to the financial market, involving both financial and non-financial institutions (Brickey, 2003: 357). It should be noted that the norms of finance continued to cascade, despite these scandals, because the financial wizards on Wall Street as well as the politicians in Washington brushed away concerns by attributing the scandals to a few bad apples, not representative of the financial system as a whole. In the early 2000s the norm entrepreneurs on Wall Street referred to the top executives at Enron and WorldCom when they acknowledged the existence of bad apples, but went no further in accepting critique of the financial system (Stiglitz, 2010). With such rampant deniability and acknowledgement of the fundamental errors in the financialised capitalist system, it is no wonder that many of the world's top economists and politicians experienced the 2008-2009 financial crisis as a total surprise. However, the crisis did not come as a surprise to the norm entrepreneurs on Wall Street; as this next section will show, the operators on Wall Street actually made quite a bit of money before the crisis hit, with the knowledge they had available to them as insiders of the financial institutions that were about to seriously damage the entire global economy. The next section will also touch on the fundamental flaws of the system, which will also serve as an example of the strength of the financial norms. This is because, regardless of the fundamental flaws, the financial norms in economic activity have been deeply internalised since they emerged in the early 1980s (Finnemore & Sikkink, 1998: 904).

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Internalisation

In this section the chapter describes and explains the final stage in the process of financialisation by examining how the interests of financial elites have been increased in both the economy and in the governing institutions on both the national and the international level (Epstein, 2001: 3). The preceding chapters have shown how this process emerged and touched upon some of the consequences that this major change in economic activity has brought with it. In the cascade stage norms become habit and repeated behaviour, but in the internalisation stage they are taken for granted (Finnemore & Sikkink, 1998: 905). The study has now arrived at a consideration of the third and final stage of the norm life cycle, which deals with the internalisation of the norm(s), i.e. how the power of finance has been institutionalised (Finnemore & Sikkink, 1998; Johnson, 2009). This section will demonstrate just how resilient the norms of finance have become. Before touching upon the 2008 crisis itself, the study will examine some of the factors that led to the meltdown in the financial sector; in its aftermath an untold number of articles and books have been written about the securitisation chain of mortgages, the intricate parallel banking system called shadow banking. The norms have remained entrenched in society despite the severe crisis in the form of the financial crisis of 2008. According to Finnemore and Sikkink, crisis and war are often factors that bring about dramatic challenges to existing norms and often lead to them being so challenged that they risk being replaced – the norms in question must be understood in their historical context – the authors defined this as world time-context (1998: 909). Interestingly enough, the authors presented a number of examples of extremely resilient norms, one being the norm of market exchange: the trade in currencies across the globe which is administered by international banks, i.e. they used a component of the larger collection of financial norms as an example of prevailing norms (Finnemore & Sikkink, 1998: 904; Levinson, 2005: 19). In addition, when the norms of finance emerged, they emerged together with significant innovation and development in the communications industry. This coincided with the rapid increase in globalisation, in which finance itself had been a major component. Therefore this study will define the norms of finance as part of what has been called "global norms" (Finnemore & Sikkink, 1998: 909; Stiglitz, 2004b: 202).

As a result of financialisation, the balance between governments and markets, politics and economics has been dramatically skewed (Stiglitz, 2010). This imbalance gradually developed in the USA, from where it has been transferred into the global economy. Another way of saying this is to argue that the norms of finance have cascaded and eventually been

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internalised in society during a period of 25 years (Finnemore & Sikkink, 1998: 907; Stiglitz, 2010). The magnitude of this norm change can be said to be enormous, because of the percentage of economic output that is being produced by the financial sector in the global economic system; in 2007, before the financial crisis hit, the market for trading derivatives amounted to $500 trillion. However, in 2013 the derivatives market amounted to $700 trillion (Denning, 2013). This fact illustrate two extremely important issues: that the derivatives market is a highly important source of economic growth in the greater economic system, but it also illustrates how very little has been done to tame the financial sector since the financial crisis of 2008-2009. As Lee Hsien Loong, prime minister of Singapore, said "When you start thinking that you can create something out of nothing, it's very difficult to resist" (*Inside Job*, 2010).

There have been several attempts to reregulate parts of the financial sector, both in the USA and in Europe – through proposals such as the Basel regime – unfortunately this has been largely unsuccessful (Dowd, Hutchinson & Ashby, 2011: 1). Why? Because the norms of finance have proved to be highly resilient, thus being able to resisting most attempts at diminishing their influence in the global economic system. In the following section the study examines the third and final stage of the norm life cycle, where it will be explained how the norms of finance have become internalized. The norm entrepreneurs of finance have achieved what they set out to do – influencing a number of important spheres in society aside from economics and politics, such as academia, the law and most of all the bureaucracy – thus making it possible for the entrepreneurs to reach the stage where the representation of the interests of finance is taken for granted (Finnemore & Sikkink, 1998: 898).

The Great Recession and a brief Keynesian moment

After the impending crisis because a reality, many believed that the time come for some major changes to the way the financial sector is managed in the global economy. At the beginning of 2009 a new president was moving into the Oval Office. President Obama had campaigned on the promise of change; he was going to change the way the USA approached foreign policy and health care, not to mention economic policy. He vowed to reign in the banks on Wall Street and put the taxpayer back in charge of the economy. President Obama was not the only one that made the promise of taking control over the banks; an untold number of high-ranking politicians in Europe echoed this rhetoric because the EU was in even worse shape than the US economy. References to the Bretton Woods system and a return to a state-controlled

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capitalist system were just some of the phrases that were repeated over and over by politicians and economists (Helleiner, 2014: 10). Unfortunately, it did not go much beyond the rhetoric. If one is familiar with the norm life cycle and applies it to the study of how finance came to dominate the capitalist system, it should come as no surprise that not much of importance was done with regards to regulation. How could that be when the world needed their governments to act? Because the norms of finance cascaded through institutions and organisations in the 1980s and 1990s with such a force that they effectively seized Western governments, bringing them into the fold (Johnson, 2009).

While the world's leading politicians failed in what they set out to do, some of them did try to enact changes by looking at the solutions that were put in place after the Great Depression of the 1930s. Keynesian economic policies were now back on the agenda in both Europe and the USA (Helleiner, 2010: 619). When it became clear that the Wall Street banks and other major financial institutions had to be bailed out after their reckless behaviour when the crisis occurred in 2008, the Bush administration started to provide massive bailout packages to rescue them. This was going to be the first bailout in a series of bailouts where the US government had to step in and act as a guarantor for Wall Street, which had lost trillions of dollars in uncontrolled speculation and irresponsible lending. President Obama continued with the bailout regime when he assumed office in 2009. Both administrations adopted a stabilising macroeconomic policy in line with the Keynesian approach to economics (Bateman, Toshiaki & Marcuzzo, 2010: 6). Many scholars of economics as well as journalists believed that this was going to be the return of Keynes and the end of neoliberal economics; one journalist even wrote an article called "The End of the Age of Milton Friedman" (Madrick, 2008). The steps taken by the Bush administration led many to believe that this was indeed the case, because it proposed a number of policies, which declared that it was going to reregulate the financial sector (Madrick, 2008). The hope and belief that the situation would improve and that the financial sector would once again come under strict supervision like in the Depression years grew stronger with the election of Barack Obama, who promised to introduce major change in US politics. However, this did not happen. President Obama appointed several of the same Wall Street-affiliated economic advisors that served under President Clinton and President Bush, thus making it clear that little change would occur with regards to imposing regulations on the financial sector (Schor, 2008; Scheer, 2012). How was this allowed to happen? The answer lies in examining the strong foundation the norms of finance have been allowed to reach over a long period of time in the global economic system.

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One of the explanations for why today's politicians and government officials were unable to bring about the necessary changes with regards to reregulation of the financial sector is simply that they no longer have the power to do so. And this is because the power of the nation-state has been effectively diminished over a long period of time and market forces have become more powerful (Helleiner, 2010: 619). The "embedded liberalism" of the 1940s and 1950s created the conditions for the WWII allies, the USA and Britain, to establish a new world order as an alternative to the one of Nazi Germany and the Soviet Union. The same conditions for reaching an international agreement on an economic ideology does not and cannot exist in today's society (Helleiner, 2010: 622). In the contemporary international system, the consensus on an economic ideology is defined by the market and the international financial elite (Johnson, 2009).

Europe and the new norm regime

While the USA is on its way to recovery and is experiencing a slow but steady drop in unemployment, Europe is still struggling. Why? Because it cannot stop digging; austerity is still the medicine being prescribed by the troika, and Europe's most powerful player, Germany, is still forcing debtor countries to cut beyond reason (Marazzi, 2010). The power of austerity and the greater collection of the norms of finance have fundamentally changed the structure of the European political economy and significantly reduced the role of government in economic activity, which prior to this norm cascade was very strong (Finnemore & Sikkink, 1998: 898; Newman, 2012). The fact of the matter is that Europe has not been able to recover after the shock its markets experienced in 2008. While the reason for this is a complex array of factors, part of the explanation is the incessant focus on austerity. Europe's recovery is being planned and effectively controlled by the troika: the European Commission, the IMF and the European Central Bank (ECB). The troika base their approach the norms of finance and neoliberal policies; balancing the budget, making sure that governments do not spend more than what is absolutely necessary and allowing for the market to regulate itself (Golub, 2011). Norm entrepreneurs are working through the Berlin Consensus, the European version of the Washington Consensus and neoliberalism's approach to the free market ideology in Europe (Golub, 2011). In the battle against austerity and Germany's prospects for the EU, Greece has become the battleground. While this is still an on-going situation and will remain contested for the foreseeable future, Greece still functions as a viable example of how powerful rich countries still preside over the fate of those to whom they lend money; Greece is being force-fed a medicine of austerity measures by the IMF, which many believe will lead

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the country into a long and devastating depression (Irwin, 2015). Moreover, the situation in Greece can be used to illustrate where Europe as a continent might be headed if the Berlin Consensus remains as powerful as it is now – unemployment is not going down; at present it is on 11 per cent across the continent and economic growth can be described as sluggish at best. Wages are declining and the safety net of the nation-state, once the pride of Europe, is shrinking. Dramatic drops in tax revenues have accompanied the decline in wages; a negative development because tax revenues make for one of the most important sources of income for European states. The political elite in both the USA and Europe backed the free market's call for the return of austerity, illustrating the free market's power over the state, and the prevalence of the norms of finance (Callinicos, 2012: 66–68). In other words, the norms of finance have been internalised on the European continent just as comprehensively as they have been across the Atlantic (Finnemore & Sikkink, 1998: 904; Halimi, 2015). The next section examines the consequences of deregulation in detail, and the results of this process in relation to the financial crisis of 2008-2009, and also provides a table, which provides and overview of what internalisation entails.

Table 3 Norm internalisation (Finnemore & Sikkink, 1998: 898; Golub, 2011; Callinicos, 2012)

Actors	Law, professions, bureaucracy	-IMF, Federal Reserve, ECB -Economists, regulators, lawyers, politicians, journalists -European Commission
Intentions	Conformity – adapting rules and standards to fit with norms	Profit maximisation, deregulation
Dominant mechanisms used to drive internalisation	Habit, institutionalisation of norms through rules and frameworks	Economic policy, laissez faire

Repeating a lie over and over until it becomes truth

The financial sector has become increasingly important in driving the capitalist system forward; through extensive deregulation of financial activity it became possible to create

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money through the financialisation of mortgages through the infamous securitisation food chain, which eventually led to the US mortgage crisis, an important factor in precipitating the financial crisis of 2008-2009. Furthermore, this section describes how mortgages and other forms of debt are connected to the issue of shadow banking. A catch-all term for these issues is deregulation. Since the crisis occurred the norm entrepreneurs on Wall Street have worked hard to make sure they are not perceived as the ones to blame for what had happened (Ritholtz, 2011). While it was the big banks and their network of shadow banks, bad investments and excessive lending that led to the financial crisis, the norm entrepreneurs on Wall Street have worked tirelessly to shift the blame away from themselves, and distort reality enough to prevent steps are being taken to reign in the financial sector (Ritholtz, 2011). According to Wall Street, the government is the culprit; the claim is that the crisis occurred as a result of poorly devised policies with regards to mortgage lending – with this the bankers have tried to paint themselves as victims rather than perpetrators – which in return is important for the continued prevalence of existing norms (Ritholtz, 2011). Because of the power of financial governance, these claims by the bankers are gaining a lot of traction, which might explain some of the reasons why very little has been done to tame Wall Street after the financial crisis. Tell a lie often enough to enough people, and suddenly it becomes true (Ritholtz, 2011).

Yet the bankers do have a point when they refer to the trouble with the housing market; one of the most important factors in the financial crisis of 2008-2009 was the US housing market and its connection to Wall Street. American taxpayers would be directly involved in laying the foundations for the biggest financial meltdown since 1929, but most of them were not aware of this fact until the mortgage market collapse. As a consequence of deregulation, the protection of the American taxpayer – a task that normally befalls the federal government – was non-existent (England, 2011: 1). A massive number of the loans granted to people who wanted to fulfil a life-long dream of owning a house were granted on faulty premises; because of the historically low interest rates on mortgages, virtually everyone decided to buy a house, but that did not mean that everyone would be able to make good on their loan repayments. Again, the process of deregulation created the foundations for private lending companies to hand out loans to just about anyone without proper checks on creditworthiness, i.e. these were risky loans. These in turn became risky investments when the investment banks on Wall Street started to sell them off through the securitisation chain (Ritholtz, 2011). The problems began when investment banks on Wall Street started to pool together all these loans into

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trusts, after they had gone through a process of securitisation which made the loans into bonds, and that made it possible to trade them on the financial market (England, 2011: 1). The forces of the free market made the housing market part of the financial sector through the use of financial instruments. While American taxpayers and investors were losing out in the crisis, Wall Street investment bank Goldman Sachs made money. The bank sold thousands of toxic subprime mortgages to investors, while working closely with a hedge fund called Paulson & Co, which bet against these mortgages. Investors lost around $1 billion, while the hedge fund made approximately the same amount in profits, and Goldman Sachs was paid $15 million for services rendered by Paulson & Co (Clark, 2010).

The chain

The homeowners' loan payments were moved on to the mortgage services, then out on to the market for investors to invest in through the securitisation chain. Wall Street was just one of the key players; the other was the US government through the federally backed mortgage service companies Freddie Mac and Fannie Mae. This meant that the triple-A rating issued on the loan bundles could be seen as even more legitimate, because it was signed off by the US federal government (England, 2011: 1, 2). The banks were selling off the loan bundles with every single loan rated triple-A, the highest possible rating. This rating made investors jump at the possibility of making a safe investment, because the top rating meant that they were almost guaranteed to make a profit. Most investors and house owners assumed that prices would go only one way and that was up. However, this was a grave misunderstanding, because what was happening was the build-up of a massive housing bubble as a result of widespread speculation and low interest rates (Foster, 2008: 1). The housing market in the USA is also an example of how debt-driven the financialised capitalist economy is; Wall Street was dependent on Americans taking out mortgage after mortgage, because that ensured a huge and constant inflow of credit into the greater economic system – American homeownership was effectively preventing stagnation in the economy (Foster, 2008: 1). How could the process be allowed to go on for such a long period of time? One explanation is that in this massive securitisation chain the regulators – at least those who were looking – lost track of where the loans went and who issued them. In this chain there were several culprits, but the private lending companies should be blamed for the reckless issuing of loans and mortgages to people who had no ability to manage such debt, seeing that such companies were responsible for issuing 84 percent of the mortgages (Denning, 2011). This brings the study to the issue of shadow banking.

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Shadow banking

The securitisation chain was used for other types of loans than just mortgages; credit card loans, car loans and student debt were also used in order to make money off debt. Economic growth based on credit is an integral component in the greater collection of financial norms and the shadow banking system has been influential in creating the lending boom that the US experienced in the period before the financial crisis (Nesvetailova, 2014: 432) . This is where the shadow banks played a central role, in both advancing financial innovation and in creating the foundations for the massive financial meltdown (Nesvetailova, 2014: 432) . Their job was to assist the big financial institutions on Wall Street with transforming illiquid loans such as mortgage loans into a tradable financial instrument (Nesvetailova, 2014: 432). The rise of shadow banks should also be seen as a major norm change that can be tied to the greater collection of financial norms; in the post-WWII state-capitalist system, banking activity was of a conservative nature and banks were encouraged to act with caution when engaging in economic activity. Most importantly, they were tightly regulated. However, with the financialisation of the capitalist system, banks started to behave more like firms or corporations where the primary objective was to turn a profit (Swedberg, 2010: 77). Shadow banking is an extension of this type of banking, because it offers no security for the customers involved and its activities fall outside the realm of banking regulations, because of the fact that they are actors who involve themselves in banking activity without actually being banks (Swedberg, 2010: 77, 78). Some shadow banks offer a form of safety through measures such as day-to-day financing, which can be compared to a norm bank deposit, but because of the complete lack of regulation many of these shadow banks ignore such safety measures completely (Swedberg, 2010: 78). In 2006 the shadow banks issued about 12 million mortgages, which amounts to about $2 trillion in value (Denning, 2011). An example of an institution engaged in shadow banking activity was the investment bank Lehman Brothers; as a result of deregulation, Lehman could involve itself in banking activity without meeting the requirements of an actual bank, such as offering a traditional bank deposit (Krugman, 2010b). This is how the financial sector laid the foundation for a debt-driven economy (Reinert, 2013: 66). The unregulated practice of shadow banking works as a powerful example of just how internalised the norms of finance have become; it was only after the crisis that the issue of shadow banking became a topic for discussion. But as this next section will show, the practice remains outside of the realm of regulatory constraints put in place in the aftermath of the crisis.

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Norm resilience

In 2010 the Dodd-Frank Act was introduced to show that the Obama administration was strongly committed to reregulating the financial sector. Compared to all the different laws and policies put in place after the crisis, the Congress-approved Dodd-Frank Wall Street and Consumer Protection Act can be seen as the only serious step taken in an attempt to solve the issue of Wall Street (Tropeano, 2011: 46). One of the main points one can take away from this particular Act is the reintroduction of laws that prevent banks from merging as investment and savings banks, thereby improving the protection of the consumer, seeing that the banks cannot use customers' savings for financial investments (Tropeano, 2011: 47). However, one should be careful about putting too much faith in this type of law because the actual enforcement of the regulation might be the actual problem (Tropeano, 2011: 47). The lack of transparency in the banking industry makes for an important issue with regards to the discussion of whether the situation with the banks is improved or not (Partnoy & Eisinger, 2013). Furthermore, the Dodd-Frank Act tells us more about the resilience of financial norms when one examines the issues it failed to address: the problems with non-banking institutions, securitisation and the issue of the shadow banking industry (Tropeano, 2011: 49). Because while this Act includes some improvements with regards to regulation, it seems to have been created without adequate consideration of just how vast and complex the US financial system has become (Tropeano, 2011: 46).

Conclusion

The capitalist system has gone through fundamental changes since the emergence of finance in the late 1970s. With a shift in ideological dominance during the 1980s, finance has increasingly come to determine economic activity in the USA. Neoliberalism ensured the institutionalisation of finance capitalism (Duménil & Levy, 2011: 18). The financialisation process brought with it a fundamental change in the way we understand profit and value. In the real economy, where products are manufactured, there is something physical to which one can assign a value. With the emergence of financial norms, a significant portion of economic growth is created by artificial products which are assigned value through the use of financial instruments; stocks, bonds, derivatives and options all function to "get something from nothing" (Reinert, 2013: 65). By identifying norm entrepreneurs, the chapter has described the process in which the champions of finance captured influential positions in the US government, most notably with the appointment of neoliberal economist Alan Greenspan as Chairman of the Federal Reserve under President Reagan. This chapter has demonstrated the

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usefulness of the norm life cycle in its ability to account for the different stages in the financialisation process, from the appointment of Greenspan to the norm cascade into the international system through influential institutions such as the IMF and the World Bank (Finnemore & Sikkink, 1998: 898; Wade & Veneroso, 1998: 4). The norm cascade was demonstrated by examining the role of these international financial institutions in laying the ground rules for how developing countries should structure their economic sector. But perhaps the most important observation this study has made is the ability of the norm life cycle theory to explain how the framework and rules of international institutions are highly affected by existing norms. The new norm regime of finance turned the IMF and the World Bank into engines for change; the guidance system for creating formal rules and frameworks has their basis in norms. In other words, certain international institutions are highly dynamic and vulnerable to changes occurring in the international system. *To understand how these institutions operate in the global system, it is imperative to understand norm dynamics*. Additionally, in order to understand the concept of global governance one cannot ignore the power of norms.

The use of financial instruments and international banking as engines for growth in global economic system in the 1990s and 2000s is a powerful illustration of the massive influence of the norms of finance. The influence of these norms can be further demonstrated by juxtaposing their cascade to the rampant instability and financial crises that have occurred in the same time period. This fact has been used to explain how the norms now are so internalised that it can be argued that the financial sector has reached a high degree of autonomy vis-à-vis the regulatory oversight of nation-states (Duménil & Levy, 2011: 22, 23; Callinicos, 2012: 68). The study has explained this process by applying the norm life cycle theory, demonstrating the utility of constructivist theory has in explaining the specific norms national and international institutions embody. The resilience of the norms of finance has also been discussed in the light of what happened after the financial crisis of 2008-2009, when politicians vowed to reregulate financial markets but failed to do so as a result of the strong degree of autonomy the financial sector has been able to establish for itself during the norm life cycle.

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CHAPTER 5

Conclusion

This study has applied a constructivist lens in order to understand the rise of the financial sector in the global economic system, asking how and why the financial sector became so important in the global economic system after the Cold War. It has used IR theory to investigate this. The argument has been that the process of financialisation symbolises a major change in norm regimes, where rules, values and institutions went through extensive transformation. It has identified the champions of these financial norms (referred to as norm entrepreneurs) focusing on both individuals and international institutions

These norm entrepreneurs pushed for the deregulation of the financial sector on a global scale. In order to illustrate the shift from regulation to deregulation, the study examined the historical period leading up to the Great Depression. During this period the financial sector became increasingly important in driving economic growth and was largely exempt from any regulation by the state. It was in this era that the world experienced the creation of large banking conglomerates and multinational financial corporations. The study discussed how the unregulated financial sector introduced a high degree of global financial instability, culminating in the Great Depression years of the 1930s. This laid the foundations for discussing the role of Keynesian economics and the regulation of the financial sector after WWII. It has been noted that in the era that followed, which lasted from 1945 into the late 1970s, there was a high degree of financial stability.

The end of the 1970s marked an era of significant change with regards to norm regimes. After WWII domestic macroeconomic policies were based largely on the Keynesian approach to economics; working towards full employment and a high level of social welfare. This was considered to be an important aspect of keeping an economy strong and healthy, so naturally this became a priority. Keynes warned against unleashing the market forces because he believed this would lead to higher degrees of unemployment, which in return would lead to a more unstable economy. During the post-WWII era, macroeconomic policy was highly influenced by Keynesian theory, leading to the tight regulation of market forces. This all changed with the emergence of a new norm regime during the Reagan era; the market forces were set free, enabling the banks and investment firms on Wall Street to dramatically increase the use of financial instruments. These instruments have been used to financialise a number of industries by turning them into tradable assets. Credit was used to stimulate a number of

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different industries such as the housing industry, the credit card industry and the car industry. With huge amounts of credit, consumers could consume much more than they had been able to do before, thus creating more and more economic growth. But it also created credit bubbles, especially in the housing market. This has been an important aspect in the linkage between financialisation and the increased occurrence of financial crises.

The financialisation of the capitalist system that started in the early 1980s would lead to major changes in global governance, which would impact all regions of the world. The norms of finance emerged as one of the most important norm changes in US politics; in the 1980s the norm entrepreneurs on Wall Street started to acquire increasing influence in the corridors of Washington DC. Politicians, especially President Reagan, were convinced by Wall Street to become norm followers and deregulate the financial sector, as this would dramatically increase economic growth. President Reagan appointed Alan Greenspan as Chairman of Federal Reserve, placing one of the most important norm entrepreneurs for finance at the head of the most powerful central bank in the world. This was incredibly important to the Reagan administration because of its conflict with the Soviet Union; breaking the back of the Soviet Union had to be done through an outperforming economic sector as well as military spending. The end of the Cold War marked the end of communism as an influential ideology. This historical change in international dynamics has been especially importance for the growth of finance as an important sector in the global economy as a consequence of the removal of an alternative ideology in the global system; with the fall of the Soviet Union and communism, the West and Reagan's neoliberal ideology were effectively unchallenged in influencing the structures of global economic activity. This laid the foundations for the norm cascade.

Because of the hegemonic position of the US globally, the norms cascaded further onto the world stage through international institutions, most notably through the IMF. The study considered the role of international institutions in the process of financialisation as crucial for the norm cascade – the IMF, the World Bank and the WTO have all functioned as vehicles for spreading and implementing the norms of finance in other regions of the world. The changes in the frameworks of these institutions illustrate the usefulness of the norm life cycle theory; by understanding the functions of norm dynamics, the study has shown how the IMF especially went through a major transformation as the norms of finance cascaded through the international system. In order to explain the structure of global governance, norms have to be taken into account. Closely connected to the norms of finance is the process of globalisation. During the Regan era a number of policy prescriptions were formulated to drive economic

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growth in developing countries. This has later become known as the Washington Consensus. In this consensus the US financial sector became an important player, leading to the deregulation of financial activity across the globe through a process of globalisation. A symbol of this powerful player is Wall Street, where the largest financial institutions in the world are located. These institutions, which include both bank and non-bank financial institutions, have been integral in promoting deregulation on a global scale.

The process of globalisation has created a global market place where technological and industrial developments have connected the world's regions through trade. Furthermore, globalisation enabled the US financial sector to push for deregulation, the removal of trade barriers from national borders. This has rendered weak economies in the developing world vulnerable to currency speculation and excessive lending in their private sectors. As a result of deregulation, the world experienced a number of regional financial crises during the period between 1980 and 2000; financial crises in Mexico, Argentina and East Asia have been used as markers to both illustrate the norm cascade and the increased instability in financial markets as a result of global financialisation. While the term is quite broadly defined, it cannot be denied that a significant part of globalisation has to do with the spread of neoliberal norms. It is on these grounds that the study argues that there is a close connection between globalisation and financialisation, because the two processes share a number of the same norms. Furthermore, the increased influence of global financial governance goes a long way towards explaining the reasons for why the world experienced a global financial crisis between 2008 and 2009. The study has argued that the resilience of the norms of finance has been illustrated through the lack of success in reregulating the financial sector after the numerous financial crises occurring in the 1990s and 2000s, culminating with the global financial crisis in 2008. While some regulation has been put in place, there is still a large part of the financial sector that remains unregulated, i.e. the norms have been internalised in the economic system. The study has used examples such as shadow banking and the use of non-banking institutions in order to securitise and financialise assets for trade on financial markets. The lack of regulation and the growth of financial markets such as the derivatives market and shadow banking go to show that the norms of finance have been institutionalised in the global economic system.

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Answering the Problem Statement

Is it possible to identify, describe and explain the process of financialisation by applying a constructivist analysis? The utility of a constructivist analysis has been demonstrated through its ability to identify, describe and explain the process of financialisation by examining the power of norms. The late 1970s marked a break with the old norm regime of expansionary macroeconomic policies and regulated financial markets. As a result of neoliberal politicians rising to power in the US, the financial sector went through an elaborate process of deregulation. The study has examined the different phases of this process through the norm life cycle theory. The theory's utility lies in its ability to understand the influence of norms in driving change in the international system. It has done so by identifying a number of norms that are linked to financialisation. These norms have been discussed in a broader context within which the study has explained the process of financialisation through three distinct stages: emergence, cascade and internalisation. Furthermore, the study has identified a number of key individuals, who have been defined as the champions of finance or norm entrepreneurs. The norms of finance cascaded through the international system, fundamentally changing the structure and mission of influential international institutions such as the IMF, the WTO and the World Bank. Again, the usefulness of constructivism is evident when examining the behaviour of these institutions, since the norm cascade and the dominance of the Washington Consensus demonstrate that they are reflecting the norms of finance. It has been argued that following the financialisation of capitalism there has been an increased occurrence of financial crises. The period after the financial crisis of 2008-2009 has been used to describe and explain the resilience of the norms, and show that the norms have indeed reached the final stage of the norm life cycle: internalisation.

Solving the Research Questions

Primary research question: How and why has finance emerged as an important sector in the global economic system since the end of the Cold War as described and explained by IR?

The emergence of finance as an important sector in the global economic system was a result of a number of developments in the USA. Financial operators on Wall Street started to make enormous amounts money in the beginning of the 1980s and started to use their influence in making political gains. This ensured even greater profits and a systematic deregulation of the financial sector. In the political sphere the neoliberal ideology became dominant through the election of President Reagan in 1981. The norms of finance were spread across the globe

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through the process of globalisation, which in this study has been defined as the exportation of the neoliberal Washington Consensus.

Secondary questions:

1. Who have acted as norm entrepreneurs in the championing of global financial governance in the global economic system since 1989? The study has identified champions of these financial norms, i.e. the norm entrepreneurs: bankers and economists such as Alan Greenspan, Robert Rubin and Larry Summers, and politicians such as Ronald Reagan and Margaret Thatcher as norm entrepreneurs.
2. How have norms related to finance and globalisation emerged and cascaded in the global economic system since 1989? The IMF and the World Bank became important arenas for norm emergence and cascade in the global system when the institutions began to echo the language used by bankers, economists and politicians in the USA. Through the Washington Consensus the institutions represented the interests of international finance in the developing world and they used economic aid and structural adjustment programmes to influence economies in the developing world. Thus advancing the system of global financial governance.
3. Which institutions have been created and which norms have been informing their operation in global financial governance since 1989? While the IMF and the World Bank already existed prior to these norms of finance, it has been argued that they went through a fundamental change after 1989, and were effectively captured by the financial sector. Capturing these two powerful institutions was crucial in order to further develop a system of global financial governance. The WTO was created out of the existing GATT with the sole purpose of liberalising trade and removing barriers set by national authorities that could impede the prospect of free global trade. The WTO has been pointed out as a crucial component in the larger process of deregulation and financialisation.

Areas of future research

With regards to the use of the norm life cycle theory in other areas of future research, there are a number of developments that a study of norms might be able to make sense of. In the case of warfare and military strategy, a crucial development has occurred. The use of drones in the US-led ‘war on terror’ for either surveillance purposes or military engagement is likely

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only to increase. It would be interesting to examine whether the use of drones represents a norm change within the sphere of warfare, not to mention the norms of international law. The drones are often engaging with elements in areas that have not officially been declared as war zones by the USA or any other state. Furthermore, the use of drones has drastically reduced the chance of placing US military personnel in harm's way. High numbers of combat casualties for the state engaging in warfare are often a source of conflict at home, causing political difficulties, exemplified by the Vietnam War and the Iraq War. With the use of drones, the element of danger for troops is in some cases completely removed. Could the norm life cycle theory explain the ever-increasing use of drones in warfare? Does it represent a new type of norm regime?

Can the norm life cycle theory be used to explain the creation of new blocs in the international system such as the group of emerging economies: Brazil, Russia, India, China and South Africa (BRICS)? In 2014 BRICS announced it would establish a development bank that would act as an alternative to the IMF. Can this be seen as indicating the emergence of new norms that counter the norms of the neoliberal Washington Consensus? If so, can the five members be identified as the norm entrepreneurs? Finally, it would be interesting to see what happens with the resistance that Greece displayed to the austerity measures forced upon it by the troika and Germany. Are we witnessing the emergence of new norms that will challenge the norms of austerity and finance in the EU? The norms of finance may seem dominant in the years to come but, just like life itself, norm formation will never go on forever. A new norm regime becomes apparent only when it has replaced the old one. Norms emerge all the time, but in order for them to be successfully implemented they have to be able to reach every stage of the norm life cycle process. With regards to the resilience of the norms of finance, the latest financial crisis did not lead to a change in norm regimes, but perhaps the next one will. Furthermore, this study has shown that the wide prevalence of the current financial norms ensures that a new crisis will almost certainly again be upon us.

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