RIPE special issue: European political economy of finance and financialization

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Abstract: This special issue leverages the variation across Europe to expand on the conceptualization of and the empirical knowledge about finance and financialization. As we will show, focusing on Europe can offer a richer understanding of the reach of financialization than the prevalent focus on the Anglo-American world, with surprising insights that may be of more general relevance to other world regions. More specifically, a focus on Europe allows new insights on the *reach* of financialization, central *actors* that brought it about, and the *choices and trade-offs* that have shaped the process.

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European political economy of finance and financialization

Introduction

This special issue leverages the variation across Europe to expand on the conceptualization of and the empirical knowledge about finance and financialization. As we will show, focusing on Europe can offer a richer understanding of the reach of financialization than the prevalent focus on the Anglo-American world, with surprising insights that may be of more general relevance to other world regions. More specifically, a focus on Europe allows new insights on the *reach* of financialization, central *actors* that brought it about, and the *choices and trade-offs* that have shaped the process.

As to the reach of financialization, European political economies with their statist biases, and institutions such as comprehensive welfare states, public banks and highly regulated rental housing markets, are often considered to be less amenable to financial logics and markets than their Anglo-American counterparts. Yet, financial logics have penetrated these spheres that seemed to be immune. As our contributions show, European banks were deeply involved in the making of a subprime market debacle. Households in Europe can be just as indebted as their US counterparts, and particularly so in the most generous Scandinavian welfare states. By drawing on these diverse European experiences, the issue sheds light on the conditions and processes in which economies other than liberal ones become financialized and households highly indebted. Furthermore, European economies which have taken the liberal path defy the equation of liberal and global.

As to the actors, we revisit the claim of the centrality of US capitalism for global processes of financialization. All too often, Europe is considered an innocent bystander or a policy-taker when it comes to finance. Instead, some of our contributions look for a distinct European impact on financialization, with paradoxical risk and return configurations.

Finally, instead of a homogenizing global force, our contributions show that the rise of finance and its penetration of economies is a multi-faceted process of conflicted public choices and tradeoffs in social practices of finance, to which political responses vary. We provide ample evidence of these variations in spheres ranging from public finance, collective pension schemes, to the role of the welfare state and employment protection. Taken together, the contributions in this special issue ask how precisely financialization works, notably when and how the increasing quantity of private finance translates into qualitative, and often unintended, changes in governance. We elaborate on this latter theme in the concluding section to this introduction.

In pursuing these lines of inquiry, our contributors adopt an explicit political economy perspective.[i] Political economists are interested in choices that individuals, corporations and public authorities face when they use financial markets to expand their opportunities. These choices tend to bring unintended consequences and paradoxical dynamics in their wake, when they go off institutional pathways that have established functional routines. In the following, we tease out these trade-offs and dynamics as they become apparent in the contributions to our special issue. First, we discuss the trade-off between risks and returns when engaging in financialization. Second, we focus on dilemmas that emerge from states' instrumentalizing finance for their own purposes, and third we discuss trade-offs in the social practice of finance. The last section discusses how our findings may be relevant for other regions of the world.

Risks and returns in the political economy of financialization

The standard trade-off between risk and return in economic decision-making under uncertainty is also basic in the political economy of finance. Whereas economic sociology tends to stress the risks of financialization for individuals and society (e.g. Krippner 2005, 2017: Langley 2008), 'return' explains the attractiveness and power of finance. Credit and financial innovations can stimulate growth, allow risk sharing with creditors and shareholders and generally stretch the constraints of the present. Obviously, the exuberance and excess fostered by these promises also make financial markets a major source of economic instability (e.g. Minsky 1992, Rajan and Zingales 2004). How did this big trade-off between risk and return, between innovation and growth versus instability, play out in historical perspective? How was it perceived by public authorities and private banks: similarly or differently?

The contribution of Hardie and Thompson analyzes the involvement of European banks in offshore dollar markets over recent decades. The extent of European investment in US financial markets has exceeded Asian investment by far, not only in quantity but also in variety. There was hardly a new type of financial instrument that European banks were not eager to use and produce. The trade-off these banks chose is straightforward: higher profitability in return for less safety. They were leveraging, raising dollar-denominated debt to acquire dollar-denominated assets, in a currency that neither the Bank of England nor the European Central Bank were able to issue when the liquidity crunch of 2008-9 struck. As asset prices plunged, European banks' liquidity needs forced the hand of the Federal Reserve which had to provide dollar reserves to Europe in order to stabilize its own on-shore markets. Thus, rather than the recycling of the Asian 'savings glut', it was a 'European banking glut' that was the proximate cause of the Great Financial Crisis.

Hardie and Thompson state a paradox that challenges those international political economy scholars who see financialization as a manifestation of the ultimate power of the US (e.g. Panitch and Gindin 2009; Schwartz 2009): the more the Federal Reserve has to act as the global lender of last resort, the more it loses control over its domestic currency markets. Strength becomes weakness. The Fed provided dollar swap lines on conditions set by the ECB and despite high risks of a political backlash from Congress against this bankrolling of foreigners. There is evidence that this has not really changed in the aftermath of the crisis. For instance, the Federal Reserve was forced to withdraw its announced tapering of extraordinary monetary stimulus in May 2013 due to the ensuing taper tantrum, 'financial shock waves [that] hit many emerging markets' (IMF 2014: 5).

Another example of how risks and returns of financialization have created paradoxical effects, this time for European states, is provided by Braun, Krampf and Murau. They revisit the history of Euro-currency markets, especially the market for dollar assets generated outside the US jurisdiction, and show how experts and officials in central banks and international organisations watched the growth of these offshore markets for a long time with benign neglect. They did so despite the fact that this growth was driven by evading the very regulation for which these officials were responsible. Braun, Krampf and Murau do not simply take this as evidence for either deliberate withdrawal or capitulation of the state when faced with market dynamics. Newly available archival material rather reveals that the men in grey suits at the BIS discussed how to let these markets serve their own regulatory purposes. A major headache was the massive dollar liquidity that the oil producers' cartel OPEC and countries like the Soviet Union held but did not want to invest in the US, given political risks and the slide in the value of the US-dollar after 1971. So 'recycling' of the petrodollars required regularization of these markets and this could be achieved by liberalizing capital flows. In the process, the new mandarins in the age of financial globalization were created: monetary technocrats that Braun, Krampf and Murau define as 'public servants acting in and through private [financial] markets'. Far from sitting back and removing obstacles to free markets, they actively created the infrastructure, taking an integral ('entangled') part in these markets. Their control over markets and relative autonomy from other elements of the executive is dependent on being able to maintain a functioning infrastructure.

This mode of governance is extremely fragile. As Hardie and Thompson showed, the liquidity that European banks need in a financial panic is above all the US-dollar, which is a liquidity that European central banks cannot produce. The autonomy of monetary technocrats is part of the infrastructure set-up, yet only cooperation with fiscal authorities can stabilise banking systems in meltdown. Put differently, market control and political autonomy are complementary in good times but become trade-offs in bad times.

How does the state-orchestrated removal of borders affect the political power of finance in seeking favourable risk-return choices? The contribution by James, Pagliari and Young speaks to this question on which the political economy literature is split: comparativists, typically of an older vintage (but see Howarth and Quaglia 2016), suggest very little because national institutions are fairly entrenched and governments will represent their interests in supranational fora. A more recent literature in international political economy sees convergence on market-based banking and a thorough transformation of national financial systems (eg Hardie et al 2013). James, Pagliari and Young use a novel method to see how European integration affects one channel through which finance exerts power, notably public consultations in which organized interests can make themselves heard; more effectively so if their voice is consistent and coordinated with other actors. EU consultations solicited submissions from all interested parties during one of the most active periods of financial reregulation in Europe. Financial institutions had every incentive to get their act together and fend off fairly intrusive regulation of bankers' bonuses, hedge fund activities and credit rating agencies. But should they go for effective narrow interest organization among the big transnational players? Or do big international players coordinate with domestically oriented banks and, indeed, non-financial corporations, seeking more legitimate representation of diverse interests in the domestic markets where they are headquartered? Through text-as-data analysis, using plagiarism software, James, Pagliari and Young trace to what extent financial firms coordinated their submissions to 66 EU consultations between 2010 and 2018 cross-nationally and intra-nationally. They find that the answer depends on how interests are organised at the national level. British financial institutions coordinate their responses among themselves and perhaps with other international players while above all French, but also German and Italian banks are heavily involved in domestic coordination, including non-financial business associations. Their coordination across borders clearly shows the importance of geographical proximity. Finally and importantly for the financial power question, international coordination does not seem to come at the cost of national coordination. Hence, positive, rule-based integration of diverse financial markets in the EU also created new layers of financial lobby networks.

This 'arms race' of empowerment brings together the three contributions reviewed in this section. It may point to a way of reconciling contradictory findings in the political economy literature. Both state and market actors can be empowered by financial integration, it is the differential that matters. Moreover, we can observe international convergence and the preservation of national idiosyncrasies at the same time. Financial integration has a recognizable national and territorial imprint that comes from its organizational carriers, here: banks, above all from Continental Europe.

Conflicted public choices

Where does all this leave nation states in Europe, apparently side-lined by monetary technocrats and transnational banks which, when in trouble, force their hands? Our special issue includes two empirical studies that bring answers to this question from opposite ends. Schwan, Trampusch and Fastenrath analyse state financialization across Europe, focusing on the phenomenon that state actors increasingly engage in financial market practices for purposes of public debt and asset management. Ban and Bohle, by contrast, ask how the Hungarian state has got away with a heterodox policy of definancialization and financial repression. From very different angles, these two contributions come to the same answer: do not discount the role of the nation state just yet.

Schwan, Trampusch, and Fastenrath conceptualize and document a pervasive trend of financialization of the state. This encompasses government practices by which public finance is no longer used to realize authoritative decisions but instead follows the supply and demand logic of markets; the calculus then becomes one of risk and return rather than political decision and implementation ('command and control'). The evidence shows this trend since 1990 for the universe of 36 European countries with their diverse political economies. In public debt management, government bonds have become tradable, and the pricing of bond issues is a market outcome rather than being determined by ordering captive audiences to hold these bonds. State debt agencies try to behave as financially savvy, active market participants and/or use a privileged group of investment banks for bond placement and trading. They are subject to financial market metrics and engage in risky financial innovations, monitored by specialised entities inside the finance ministry that give greater weight to the considerations of risk and return than to the public goods for which particular ministries are responsible (like infrastructure, social services etc). State financialization has affected the asset side of budgets only later and more unevenly. Sovereign wealth funds are notable innovations, with Nordic countries being the most state financialized on the asset side. Governance of public finances in and through financial markets requires considerable state capacity to be favourable to society at large, and the authors fear that all state financialization damages transparency for parliamentary scrutiny, so comes at a cost for democracy.

The role of state capacity in inviting and repressing finance is key in the contribution of Ban and Bohle as well. They ask how some governments can push back against financial globalization, once the fiscal and political risks to sovereigns have become all too apparent. Hungary, Latvia and Romania, all countries outside the euro area, needed EU-IMF assisted bailout programmes in 2008. In all three cases, states had invited in foreign banks to develop their hitherto barely existing financial markets. Yet their responses to dependent finance and financialization covered the whole spectrum conceivable answers, from populist-authoritarian pushback against these foreign banks to deepened membership in the European liberal integration project. The Hungarian government practiced financial nationalism and repression that came close to a breach of Single Market rules, while the Latvian government joined the euro area and thus embraced financial integration even more; Romania moved between these poles. Ironically, each of these responses can be seen as variations on Milward’s (1999) theme of the *European rescue of the nation-state*. The Latvian government protected domestic households against default on its foreign exchange denominated debt because euro area membership gave it access to all the liquidity that the ECB could provide. At the same time, Europe's failure to contain money laundering gave its domestic banks a second life, while the domestic economy is served by foreign banks. Romania played mostly by the EU rules, more by default than choice. Financial nationalism could not get off the ground because the government lacked the capacity to collect sufficient revenues and the political strength to curtail the independence of the central bank; a new government in 2019 ended the attempt at financial repression. The real puzzle is Hungary under the Orbán government. It chose to discriminate in favor of domestic banks, foster lending to Small and Medium Enterprises at favourable terms, and monetize state debt with the help of a repoliticized central bank. This has neither triggered capital flight by transnational banks nor a decisive crackdown by EU Single Market regulators. Despite bending Single Market Rules, the country continues to benefit from the tolerant behaviour of international bond markets and the regional subsidies that come with EU membership (Johnson and Barnes 2015). Ban and Bohle provide an intricate explanation for these variations in governments' responses to financial globalization across otherwise similar countries.

The case study of Hungary makes for uncomfortable reading for those of us who believe that democracy and checks and balances on governments make for better governance of special interests generally and finance especially. While the two contributions come to the same conclusion as regards the agency of states in dealing with private finance, there is a tension in their implications for democracy. Schwan, Trampusch and Fastenrath worry that financialization may lead to de-democratization. Ban and Bohle find that de-financialization seems to be more effectively executed by illiberal democracies, perversely protected by the EU. The latter may be a short-lived phenomenon, generated by right-wing populists in power who can thus score points against the liberal consensus, but it is a phenomenon worth further research.

Trade-offs in the welfare state and the social practices of finance

Arguably, the European welfare state is the most scandalising arena to which finance has been invited. The ground for the take-off of household credit was prepared by pension privatisation in conjunction with regulatory reforms of retail financial markets and preferential tax treatment of mortgage debt and homeownership. Similar developments with respect to long-term care are already observable: reverse mortgages[ii] and novel private-public insurance arrangements are planned to diversify the risk of longevity and disability. Student loans to part-privatize the costs of higher education is another pertinent example. Ironically, we see these phenomena of financialization in some of the largest and most mature welfare states in Europe.

The subtle mechanisms and unintended consequences of welfare state financialization are the themes of the last two contributions in this special issue. Johnston, Fuller and Regan start with the surprising fact that levels of household debt and mortgage credit are highest in generous Nordic welfare states; in the case of Denmark and the Netherlands even higher than in any of the Anglophone countries. Other Continental European countries reach levels of household debt comparable to the UK. High household debt in liberal market economies, typically the US, was rationalized as a substitute for welfare state retrenchment (Ansell 2014, Krippner 2017, but see Schwartz and Seabrooke 2009). But the social democratic world of welfare in Nordic Europe has neither drastically retrenched nor restructured. The contribution of Johnston, Fuller, and Regan provides a more general explanation, based on data for 17 European countries, by arguing that the higher income and employment security in welfare states enhances the creditworthiness and debt bearing capacity of households.

Hence, even if credit is permissive but employment less secure, as in liberal market economies and welfare regimes, we see lower household debt than in the Scandinavian countries and the Netherlands. This linear relationship is mitigated by mortgage market regulation, which can account for the diversity they find across a number of conservative welfare states, where employment is secure but access to household credit restricted. Beyond the rich empirical contribution, this article makes an important theoretical point. It takes the institutional complementarity hypothesis underlying regime typologies seriously: we cannot explain what financialization does by looking at finance alone. And there is no simple tradeoff between welfare state generosity and private household finance. This points to interaction effects, here between social policy, household debt and mortgage regulation, that lead to unforeseen effects of financialization.

Mabbett's contribution makes a strong case for the argument that tradeoffs, which political economists often understand as deliberate choices, are more usefully understood as social practices that are situated in an institutional context of which the actors are not necessarily aware. The policy of 'de-risking' occupational pensions in the UK is not a triumph of regulatory protection of old age security. It is a financialized practice of switching pension fund assets from equity to bonds in order to reduce volatility in fund valuations, at the cost of future pensioners' income. This 'reckless prudence' has taken hold of regulators and pension funds in the UK alike, underpinned by financial models which have an asset focus instead of an income focus. Mabbett shows how models are translated into de-risking practices through specific conventions and rule-making processes, developed by the industry in interaction with the pensions regulator. This process seems unstoppable, despite the concerns of observers, not least the Bank of England, that 'reckless prudence' has damaging effects on macroeconomic stability, wealth inequality and household welfare. However, Mabbett also notes that in no other comparable country with a large occupational pension sector, including the US and the Netherlands, has de-risking been such a dominant trend against the interests of sponsoring employers and employees. Mabbett explains that while the political-economic processes are generalizable and provide evidence for the performativity of financial models (Braun 2016, MacKenzie 2006), the extent to which performative economic theories become conventions that determine the management of uncertainty as risk still depends on social practices and regulatory detail (Nelson and Katzenstein 2014). Mabbett is sceptical that more transparency and democratic control of pension fund governance would make any difference, but collective governance of pension schemes, including representatives of employers and employees, might do so.

These two contributions make some progress towards addressing the valid criticism that political economists have too little to say about the social practices that shape markets (Drezner and McNamara 2013, Hardie et al 2013). Political economists leave 'large stretches of intellectual territory' (Braun 2016: 257) to neoclassical economists and their call for 'micro-foundations', which explain every macro-outcome as the result of optimization by strategic actors. The behavioural turn in economics and finance adds the startling insight that individual action is not ruled by instrumental rationality to get to somewhat more robust predictions, while sustaining this basis in individualised micro-foundations. Political economists are, for good reason, sceptical about as-if explanations and the fallacies of composition which these exercises of micro-foundations tend to produce. The contributions above suggest that careful working backwards from the macro-outcome (of household indebtedness, de-risking of pension funds) to banks' credit screening and pension fund governance provides useful insights and qualifies received wisdom about straightforward trade-offs between financial and state power.

Insights, not lessons, from Europe

The contributions in this issue have teased out specific insights that can be gained from focusing on the diversity of European experiences with finance and financialization. The expansion of financial markets provides new opportunities for growth, social progress, and distributive politics. These promises make finance attractive to many, give it political power and render finance an essential feature of capitalism. They also come with new risks, creating a permanent demand for social risk management that has committed governments to ever-bigger interventions (Chwieroth and Walter 2019: 190-6). Our contributions question the dominant understanding of finance and financialization as an almost self-propelling trajectory, where financial actors and a financial market logic becomes ever more powerful, increasingly dominating all spheres of social, economic and political life. Instead, we have highlighted the interaction of finance with other institutional spheres, and shown how the state's embrace of and entanglement with finance produces dilemmas and trade-offs. Taken together, the contributions in this issue argue that the penetration of finance is not so much a takeover by special interests as the outcome of attempts by public as well as private actors to instrumentalize finance for specific goals that then have unintended and uncontrollable consequences. This is reinforced by financial models which underpin shared understandings of how markets work, producing social practices and regulatory outcomes which may not be in anyone's long-term interests.

Do these insights travel to the rest of the world? We think they do. In this last section, we highlight some of the findings relevant for other world regions. They are not formulated as lessons because Europe's record in financial matters over the last decade does not invite lesson-drawing. Rather it shows how little we knew about the unintended and often detrimental effects that the rise of finance and financialization could have on a continent of high to middle-income countries and relatively generous welfare states. Hence, our highlights are at the same time questions for further research.

Most parts of the world did not have comprehensive welfare states and employment protection before financial markets were liberalized. By observing how finance interacts with co-evolving institutions, we might be able to see whether similar complementarities are observable. For example, does social protection and employment protection drive, rather than contain, household indebtedness; and does regulation of retail financial markets make a difference as Johnston, Fuller and Regan find?

In a similar vein, scholars working on international development have long pointed out both how significant the developmental state is and how much variation there is in "state directed development" (Kohli 2004, Evans 2012). A question that is closer to this literature would be how the increasing significance of finance has interacted with developmental state institutions, and traditional forms of business-state alliances. The contribution by Ban and Bohle suggests that the particular growth model, and state capacity, not foreign or domestic finance, will make the difference, a finding that is compatible with Epstein's (2017) more extensive study.

Throughout this introduction, we have referred to the state, rather than the government. The articles in this special issue caution against the notion of a permanent actor which faces trade-offs and makes choices. These choices are often taken by different administrations over time, and/or by various independent public authorities, possibly below the radar of national governments as in the case of the 'monetary technocrats' of Braun, Krampf and Murau. One democratically elected government may want to increase private savings for retirement by allowing individuals to gain from stock market performance while another, years later, may want to make private pension funds safer. The decisions of each part may lead to more financial risk-taking than the government, which is ultimately responsible, intended, as Mabbett's case study illustrates. These examples suggest that democratization and transparency are not necessarily remedies for the adverse effects of financialization: decisions may be taken according to best democratic practice but still expose the polity to loss or mayhem.

The complement to 'government' is that financial markets are still too often thought of as domains where power is exercised by one intelligent strategic actor. This is perhaps inevitable if we think in terms of a sector in one country, where 'representatives' of that sector are quoted in the media for a consensus or concern as if they were the representative actor of the sector. But, as social choice theory has told us long ago (Schelling 1978), the smartness of individuals in finance can amount to colossal stupidity and collective incompetence in the aggregate. Tracing this requires disaggregation of financial actors and attention to systemic interaction effects. The debacle of the financial crisis that Hardie and Thompson revisit was created by off-shore dollar markets becoming major conduits for the melt-down of a segment of the US mortgage market turning into a North-Atlantic financial collapse. Mabbett analyses how the interaction of accommodative monetary policy and security-oriented pension regulation can lead to de-risking strategies of pension funds that jeopardize the income security of the very target group, pensioners, that are supposed to be protected.

One response to systemic interaction effects is dis-integration. Hence the positive interest in financial repression that Reinhart, Kierkegaard and Sbrancia (2011) expressed in one of the IMF's flagship periodicals. The authors show how the suppression of interest rate rises, the creation of captive audiences for bond holdings and an elevated inflation rate made for a powerful combination to liquidate high war debt in the early post war years (see also Reinhart and Sbrancia 2015). It is with a tone of regret that the authors note how difficult it will be to agree on such a sustained policy of financial repression which allows for speedier recovery of depressed economies. This suggests that constructive forms of financial repression that create fiscal breathing space are no longer taboo (Korinek and Sandri 2015). The macro-prudential turn in central banking is a pertinent example: it segments financial markets to avert systemic risks. Researchers may want to look at reforms of the international financial architecture through this lens because it is likely that nation states cannot go it alone or if they do, as in Hungary, the process is likely to further crony capitalism. Financial repression raises questions of sustainability for old age security that rests on funded pensions, however. It is noticeable that some countries in Eastern Europe, like Hungary and Poland, abandoned their funded pension systems in the wake of the crisis and restored reliance on pay-as-you-go schemes. Both relief for the debtors of last resort and doubts about pension funding must be of interest to policy-makers in emerging markets who notice how quickly certain taboos have been broken by the North-Atlantic financial crisis.

However, these gradual shifts in policies might not be enough to counter the political fall-out from financial crises. Gourevitch (1986: 17) famously opens his *Politics in Hard Times* with the sentence: "policies require politics". What are the politics of financial crises and their aftermath? Financialization is associated with high economic volatility and boom-bust cycles. This shatters livelihoods and damages elected governments to the core. Funke et al. (2016) have shown that heightened uncertainty and policy gridlock after systemic financial crises benefits far-right political forces disproportionately. Perhaps not surprisingly, their promise to “take back control”, and their scapegoating of finance capital and dark foreign forces resonates with populations that have seen unemployment soaring, their savings diminished, and mortgages under water. In contemporary Europe, the far right made early inroads in its Eastern periphery and has strengthened in other countries since. But one of our intriguing findings is also that, contrary to their conspicuous chauvinistic anti-finance rhetoric, far right economic nationalists in government seem much less inclined to push back transnational finance than in earlier historical periods. Financial autarky is certainly not on their mind. Hungary’s Fidesz party is a case in point. While it has selectively castigated foreign bank ownership and bond holding, it has at the same time played by the international rules of fiscal austerity and financial integration, signalling to financial markets the soundness of its economy. And as Johnson and Barnes (2015) note, financial markets and rating agencies have indeed acted as Fidesz’s international enablers. This raises intriguing questions about the possibility of a new relationship between the far right and financial markets, which are relevant beyond Europe. Does the contemporary far right make policies *with* international finance, rather than against it? We may see here “the rise of right-wing globalists” (Slobodian 2018), who do not want to abolish global finance but rather transform it for their aims.

This introduction has several times alluded to observations in various contributions that the relationship between democracy and finance is more complicated than some of the prevailing narratives of an ideational and/or institutionalised complicity between business and political elites suggests. Democratically elected governments were not necessarily captured but chose to use financial innovations and opportunities for their own reasons: because they promised to provide more room for fiscal manoeuver or because they were popular with core constituencies. At the same time, the cross-border nature of modern market-based banking has taken away control from the nation-state, as was conceded some 50 years ago when the Basel Committee took over the role of international regulator among rich OECD countries. This supranational role was intensified for EU member states through the Single Market for financial services, and both regimes are now complemented by the Financial Stability Board of the G20. This makes financial regulation ever more a transnational political process that leaves only a marginal role to national parliaments. The political mobilisation of financial networks has caught up with this as James, Pagliari and Young found for their mapping of EU consultations on financial regulation.

However, we can see different scenarios unfold that only future research can establish. National polities may become constrained by supranational and international supervision and legislation. If they resist such constraint, is this because this upward delegation leads to one-size regulation that fits none, or to very few national systems? Or is enforcement difficult because moral hazard leads to additional risk-taking on the back of internationalized responsibilities for collective safety and makes blame-shifting easy? In any case, we consider democracies to be more robust and assertive than the 'financialization as takeover by banks' narrative has it. Yet, it is also not a panacea, both because elected officials may fear the adverse politics of financial scandals and prefer to delegate regulation away, are bound by supranational commitment or simply do not want to stand up to financial firms that, after all, provide well-paid service sector employment.

To us, it is beyond doubt that international banks take advantage of aspirations that elected officials and citizens have, make them offers they can't refuse and load them with risks they can't bear. So will a further severing of bank-state ties improve or worsen this public policy problem? Does it allow for more risk-sharing when the next crisis comes along as it most certainly will in the long recovery from the Coronavirus pandemic? The jury is still out on this. Epstein (2017) argued most forcefully for Central and Eastern European economies that thanks to foreign subsidiaries they could share the costs of the banking crisis with Western Europe. Johnson (2016), by contrast, sees policymaking in Central and Eastern Europe threatened by the internationalization of finance and the monetary technocracy that accompanies it.

This brings us to closely related issues of state transformation, for which some of our contributions provided evidence. Making tax-transfer states dependent on international finance looks now like a pact with the devil. But we have to take seriously the perception that it may also provide the chance for expedited catching up. The crisis has made governments more, not less, dependent on bond markets. Many Treasuries harbour hopes that 'green finance' can help with the necessary investments necessary to slow down climate change. This is analogous to the hopes once placed on household finance as an opportunity to rebalance social insurance of longevity from public to private responsibility (Ansell 2014). There are political calls for pension funds and insurers to invest in long-term assets like infrastructure, with not much success so far. Central banks, with the Swedish Riksbank in the forefront, consider a complete digitalization of money, which would make the public and private financial infrastructure even more intertwined.

A last insight that has potentially important wider implications is the careful reassessment of American hegemony in issues of finance and financialization that earlier path-breaking work put on the agenda (Epstein 2005, Krippner 2005). Arrighi (2010: 371) puts the prevailing view succinctly: “[i]f past tendencies are any guide to the present and future, we could expect that the financial expansion would restore temporarily the fortunes of the leading capitalist agency of the epoch (that is, of the United States) but would eventually result in a change of leadership in the center of capital accumulation on a world scale.” But the crisis has also made us see the past differently. And we need to factor in that nobody may be hegemonic in a world of globalized finance. Despite the constraints put on American financial and monetary policies, China, much like Europe, lacks the capacity, and possibly willingness, to replace the US as a financial power. The Yuan Panic of 2015 demonstrated that China’s overinflated shadow banking sector was as much in need of dollar funding as Europe’s banks and economies during the Great Financial Crisis. In 2015, as Tooze (2018: 610) writes, “the question was not whether China would dump the dollar but whether the Fed would cooperate with China’s efforts to stabilize the yuan.” What we see is ultimately a continuation of global interdependencies with no monetary anchor, playing out in a politically increasingly divisive context.

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[i] This is in line with the plea of van der Zwan (2014) to bring more agency into the study of financialization that owes a lot to economic sociology (Krippner 2005).

[ii] A reverse mortgage means that households receive a regular income on loan from a bank that is secured by a mortgage on their home. This can be a way for pensioners to liquidate their house that eventually becomes the property of the bank.