Rentier shifts, legitimacy, and the social sources of international financial hegemonies

Leonard Seabrooke

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Abstract

This paper provides an analysis of the domestic legitimation of ‘financial reform nexuses’ during two periods of English and US international financial hegemony. Following Max Weber’s work on the state and finance, I argue that positive state intervention is required to legitimise a ‘financial reform nexus’ (the interrelation of credit, property, and tax politics) for people on below median income. I hypothesise that sufficient legitimation of a financial reform nexus provides the means to generate and sustain international financial hegemony, including the capacity to tailor the structure of the international financial order to suit the hegemon’s interests. Conversely, if the hegemon is unable to sustain the legitimation of its domestic financial reform nexus—a choice that correlates with negative state intervention that supports a ‘rentier shift’—its capacity to maintain international financial hegemony wanes. I draw from examples of the legitimation of financial reform nexuses in England (1900–15) and the US (1985–2000), linking domestic legitimation to consequent changes in the structure of the international financial order. Through this analysis of the social sources of English and US international financial hegemonies, I differentiate the English ‘international rentier economy’ from the US ‘international creditor economy’. Finally, I stress the importance of positive state intervention for the legitimation of the US financial reform nexus.
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LEONARD SEABROOKE

INTRODUCTION

It is widely accepted that the early twentieth century and the late twentieth century are two periods of ‘high finance’, in which capital mobility between states greatly increased and placed states in a much diminished role, forcing them to adopt new strategies to increase their international competitiveness lest they fall completely under the control of ‘finance capital’. While much work has been done on how international financial hegemonies constrain or permit national autonomy, here I focus on how the relationship between states and lower-income groupings (LIGs) affects international financial hegemony. I stress that tracing qualitative and quantitative shifts in the domestic constitution of states is important in understanding how states have been able to influence change in the international political economy. This, in turns, requires a comparative historical sociological analysis. My main contention here is that states are only able to constitute themselves in a sustainable manner within the social constraints of legitimate action, which requires consent from a broad social base. It is the contestation of the legitimation of power within

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3 Understood here as people on below median income.
states that is especially valuable in understanding the domestic social sources of financial power and, therefore, how characteristics of international financial hegemony have changed over time.

Following this aim, this paper provides an analysis of the domestic legitimation of ‘financial reform nexuses’ during two periods of English and US international financial hegemony. I argue that understanding the relationship between states and non-elites on the legitimation of what I call the financial reform nexus—the interrelation of tax, credit, and property politics—provides an insight into the social sources of hegemony. Following a discussion of the use of comparative historical analysis of hegemonies in international political economy, I argue that what is missing from contemporary approaches is the concept of the legitimation of state power to non-elites such as LIGs. This legitimation, following Max Weber’s work, is important in understanding the social sources of international financial hegemonies in different historical periods. To achieve such an understanding it is vital that the consent of LIGs is not ignored or treated as manufactured. Once consent and legitimacy are treated as important explanatory variables in understanding the social source of international financial hegemony, we are required to investigate a state’s relationship with LIGs in legitimising changes to the domestic financial reform nexus. Such changes have important international consequences and provide greater political and sociological detail to help us understand the rise and decline of international financial hegemonies.

I hypothesise that when states legitimise financial reform nexuses for LIGs they are more able to generate and sustain international financial hegemony, including the capacity to tailor the structure of the international financial order to suit the hegemon’s interests. Conversely, if the state is unable to sustain the legitimation of its domestic financial reform nexus—a choice that strongly correlates with support for rentier interests—its

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4 A rentier is a person who gains ‘unearned income’ from their investments, whether those investments be in land or in financial securities. Rentiers are disengaged from the domestic political economy but extract rents from its lower-income groupings through their political activities. I find rentier activity goes hand in hand with regressive social policies and the politics of particularistic privilege put forward by dominant economic groups.
capacity to maintain international financial hegemony wanes. I refer to such a choice as a ‘rentier shift’.

The domestic financial reform nexus is important to international financial hegemony because it provides an insight into how states can enhance their capacity to influence the international political economy from a broad social base, or how a failure to support LIGs undermines the foundations upon which that influence is built. In both England and the US there were significant changes to the political, economic, and social organisation of credit, property, and taxes during their period of international financial hegemony. In both of these ‘hegemons’ lower-income groupings called for increased access to property ownership. Without exception, lower-income groupings wanted socially progressive income taxes so that they would have sufficient income to allocate to fulfilling their social wants. Likewise, LIGs across the board called for increased access to credit from financial institutions for the same reason. Accordingly, a high degree of legitimacy will be conferred by LIGs when the financial reform nexus conforms to social norms and enables them to fulfill their social wants, while a state’s failure to provide these wants will weaken its legitimation of its financial reform nexus.

Following this, I argue that a state’s successful legitimation of a financial reform nexus deepens and broadens the domestic pool of capital, some of which can be exported, and also propagates social norms concerning financial practices that enable credit creation and financial innovation. From this basis international financial hegemony can be generated to: 1) extract credit from and export credit to the international financial order; and 2) influence the regulatory and normative structure of the international financial order.

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6 In many ways this view reflects John A. Hobson’s arguments on underconsumption and a state’s positive engagement with the international political economy, including the need to block rentier interests should a state seek to support forms of international government and avoid imperialism.
There is, however, an important conditioning variable here: the legitimisation of a financial reform nexus requires positive state intervention. Positive state intervention is required for LIGs to enjoy lower tax burdens, and greater credit and property access. It is often difficult to create, however, because powerful dominant economic groups may seek to minimise their own tax burdens and block access to property and credit to maintain political, economic, and social position. Positive state intervention is also required to encourage financial institutions to lend to such groupings, as banks will tend to be myopic in assessing the creditworthiness of LIGs. Only when the state intervenes on behalf of LIGs to guarantee their creditworthiness will banks extend credit to them.

The above hypothesis therefore requires us to disaggregate state intervention into positive and negative categories. The English case demonstrates initial positive state intervention when building international financial hegemony (1840–90), but a shift to negative state intervention as the English state was unable to counter what I term a ‘rentier shift’. This rentier shift damaged the legitimisation of the financial reform nexus for LIGs and weakened English international financial hegemony (1900–15). The US case also demonstrates a rentier shift during a period considered to be indicative of US declining international financial hegemony (1980–85). But this rentier shift was challenged by positive state intervention that then contributed to US international financial hegemony (1985–2000).

By studying states’ legitimisation of financial reform nexuses we can also understand how states are able to influence the structure and practices of their international financial hegemony. I argue that the successful legitimisation of a financial reform nexus through positive state intervention will
domestically propagate social norms on financial practices and encourage innovations that further international financial hegemony. These domestic processes have important international effects. States with deep pools of capital and high legitimacy can encourage other states to ‘organize their domestic structures in a way as to coincide with the dominant legitimacy conceptions of the day’. The 1900–15 period, as we shall see, reflected England’s rentier norms that were challenged domestically but spread internationally. English rentier norms provided short-term gains to rentier but weakened the legitimation of the domestic financial reform nexus and therefore England’s capacity to maintain international financial hegemony. In the 1985–2000 period the US provided positive state intervention that broadly embedded financial practices based on norms of entrepreneurship and redistribution to permit property access. The 1985–2000 period reflected these norms with its emphasis on creditworthiness and surveillance. The social grounding of these norms has only recently come under attack from changes to the US financial reform nexus under the George W. Bush administration.

This paper is divided into three parts. Part one discusses the issue of hegemony in international political economy (IPE) and the need for a better understanding of consent and legitimacy. Part two discusses the English state’s legitimation of the domestic financial reform nexus for LIGs between 1900 and 1915, linking these changes to English international financial hegemony during the same period. Part three discusses the US’s legitimation of the domestic financial reform nexus for LIGs in the 1985–2000 period, linking these changes to our contemporary international financial order. Given limitations of space, this paper provides vignettes of the relationship between domestic financial reform nexuses and characteristics

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of international financial hegemony. I conclude by reflecting on the importance of consent and legitimacy in comparing the social sources of international financial hegemony in different time periods.

HEGEMONY, HISTORY, AND CONSENT
What are the domestic sources of international financial hegemony? Popular understandings of hegemony in the international political economy emphasise how hegemonic power is created through the accumulation of economic resources that can domestically diminish and undermine hegemonic strength, or how the accumulation of economic resources bolsters a more diffuse ideological and cultural domination that favours elites. Both understandings of hegemony have problems understanding the domestic sources of hegemony and provide historical distortions of how we understand change in the international political economy. I take each in turn.

Hegemony from material capacity
First, the notion that hegemony is constructed from a combination of domestic economic resources and political will is prevalent in discussions of US hegemonic decline from the neorealist and neoliberal schools of thought. From the 1970s through to the mid-1990s scholars from these schools argued that the US was losing its post-war hegemonic status due to external constraints (‘free rider’ problems) and the internal diminution of its economic resources, including natural resources, labour, and capital. For the neoliberal school, Robert Keohane explained this problem as a ‘self-liquidating strategy’ that was a consequence of the US falling into the trap of the ‘disease of the strong: refusal to adapt or change’. Yet, during the


most hardened years of systemic IPE scholarship, the ‘details and vagaries of domestic politics’ were dismissed in preference for systemic explanations that, for some, ‘reduce[d] substance to process’. For the neorealist school, Robert Gilpin argued in his 1976 classic *US power and the multinational corporation* that the United States was repeating the error of the British Empire by ‘overinvesting abroad to the detriment of the home economy’, and that by the early 1970s the US had become more of a *rentier* economy than a domestic producer. As a consequence, the US became increasingly vulnerable to external shocks, to which its domestic state capacity was unable to adapt. According to this view, hegemons are trapped in a climacteric: they build themselves up from young debtors to mature creditors, only to become steeped in debt from the costs of hegemony. Their choice is to decline alone or to create partnerships with other states with greater economic resources.

For Gilpin this historical comparison fitted well with his general understanding of how world politics is shaped by climacteries of hegemonic rise and decline.

This use of historical comparisons has been called into question as it tells us little about the domestic and social sources of hegemony in the international political economy. John M. Hobson, among others, has argued that the British period of supposed hegemony in the nineteenth century is an artificial construct and an inappropriate comparison with the US in the postwar period—and especially thin grounds upon which to create a

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14 Gilpin’s later work *The political economy of international relations* proposes a combined leadership (the *Nichibei* economy) between the US and Japan to compensate for the lost hegemonic status. See Gilpin, *The political economy of international relations*, Chapter 10.

hegemonic stability ‘theory’. For Hobson, Britain demonstrated little of the benevolence or willingness to act as a hegemon that is frequently associated with the concept of hegemony. Rather than a ‘weary titan’, as Aaron Friedberg would have it, for Hobson Britain was a ‘wary titan’ in being ‘unwilling rather than unable to provide the costs of international leadership’.16 From this view the British encouragement of an open international economic system was a ‘matter of survival’ rather than the adoption of hegemonic responsibility.17 In short, it is more than a little unclear that the British hegemonic period ‘fits’ with established arguments about the responsibilities and role of the US as a hegemon in the postwar period.

With regard to historical distortions, it is troubling that Gilpin attributes British decline from its ‘Golden Years’—from when hegemonic leadership came at little cost18—to a combination of domestic high consumption, technological backwardness, and the increased power of financiers and political elites.19 There is little support given for these three claims, and they are used as a lead into discussing US decline rather than providing a substantive comparative historical analysis. The last claim concerning the rise of financiers and political elites is especially troublesome given that understanding the domestic political constellation of British decline would be particularly useful for the US comparison. While Gilpin is interested in historical patterns and generic processes of hegemonic rise and decline, history becomes a servant to establishing grounds for the profundity of his arguments in the contemporary period. For this conception of the sources of hegemony, the role of non-elites, and their consent, is irrelevant.

18 Gilpin, US power and the multinational corporation, p. 83.
19 Ibid., pp. 90–7.
Hegemony from ideological coercion and manufactured consent

An alternative conception of hegemony in the international political economy is provided by neo-Gramscians. For Gramscians hegemony is more than material capabilities, international prestige, and the responsibility to provide international public goods, but includes the ‘condition of a world society and state system in which their position through adherence to universalised principles which are accepted or acquiesced in by a sufficient proportion of subordinate states and social forces’. Gramscian views of international political and economic change emphasise how an ‘elite transnational class’ and states use a blend of coercion and persuasion that is ‘forced or imposed on subaltern classes’ to produce a hegemonic bloc. Important to this conception of hegemony is the notion that consent gained from non-elite groups is false; essentially that elite transnational classes and states manufacture it. Antonio Gramsci, for example, refers to the elites’ ‘perfect preparation of the “spontaneous” consent of the masses who must “live” those directives’. This use of the concept of ‘false consent’ allows Gramscian conceptions of hegemony to explain away change to the interests of a ‘hegemonic bloc’. The consequence, I argue, is that Gramscians effectively rob non-elite groups of agency despite their claim to overcome the ‘gulf between structure and agency’. By treating the consent of non-elites as false, Gramscians provide a view of historical change that emphasises the continuity of elite interests. Such continuity masks non-elite agency and prohibits comparative historical analyses of periods in which non-elite groups were able to restructure...


23 Gill and Law, ‘Global hegemony and the structural power of capital’, p. 94; Cox, Approaches to world order, pp. 29–30, 197–8.
their political and economic environment with significant international consequence. While Gramscians will undoubtedly cavil at this allegation, non-elite consent is commonly presented not as an historical fact to be revealed, if present, but as a ‘hope for a new politics where active consent reigns rather than ideological domination exercised through folklore, religious myth, ignorance, contradictory consciousness, etc.’ Gramscians therefore perversely downgrade non-elite groups’ agency.

**Hegemony from legitimacy and ‘real’ consent**

While we cannot deny that people would make better choices given superior access to information or within different political and social environments, to understand consent as false does serious damage to historical knowledge. An alternative view that is less prone to historical distortions is offered by a neo-Weberian approach. In short, a neo-Weberian historicism affords non-elites agency by viewing their consent as historically important in shaping the international political economy, regardless of how misinformed their choices may be viewed externally or in retrospect. A neo-Weberian approach, I argue, has particular advantages over other approaches in political economy that claim to treat history seriously. The first benefit is its treatment of the subject in history, in which people are given agency: it is recognised that people have ‘life chances’ to change the political and economic dynamics of their time, and that the period in which they live is not pre-determined or natural. This emphasis provides the crucial difference between neo-Weberian and Gramscian perspectives when discussing the role of non-elite groups in a capitalist economy. The second benefit of a neo-Weberian approach of historical change is that it rejects a view of material and normative

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environments as evolutionary, or the idea that we can explain the past through the lens of the present—the problem outlined above with Gilpin’s view.\textsuperscript{27} Weber’s historicism requires one to isolate what is specific about a state–society complex within a historical period. From this view, understanding is more important than explaining, since various values incline us to explain away what is different rather than placing differences in their historical social context.\textsuperscript{28} When non-elite consent is treated as real then the legitimation of state power is crucial to domestic political economies and a state’s capacity to influence the international political economy.\textsuperscript{29} In providing a neo-Weberian historicist approach, I follow Reinhard Bendix’s view that an ‘order endures as long as the conception of its legitimacy is shared by those who exercise authority and those who are subject to it’.\textsuperscript{30}

As such, the contestation of power between the state and society is a crucial element in generating state capacity and emerges from the interplay of both material and normative conditions. The state has partial autonomy from societal interests and can take the lead in shaping domestic material

\textsuperscript{27} See also Robert Gilpin, ‘Economic evolution of national systems’, \textit{International Studies Quarterly} 40(3) 1996, pp. 411–31. It should also be recognised that Weber’s academic attacks were as much against evolutionary determinism as they were against Marxism. Certainly the virulence of Weber’s anti-Marxism has been exaggerated by scholars like Talcott Parsons, who held a ‘position he knew to be radically at variance with Weber’. See Peter Ghosh, ‘Some problems with Talcott Parsons’ version of the “Protestant ethic”’, \textit{Archives Européennes De Sociologie} 35(1) 1994, pp. 104–23, at p. 117.


\textsuperscript{29} As my approach claims to treat history seriously, it answers the frequent calls within the fields of comparative and international political economy bodies of literature to engage ‘a historical mode of inquiry that considers structures as the reflective appreciation of patterns of thought and action which help individual agents to contextualise their own meaning and place in the world’. See Louise Amoore, Richard Dodgson, Randall D. Germain, Barry K. Gills, Paul Langley and Iain Watson, ‘Paths to a historicized international political economy’, \textit{Review of International Political Economy} 7(1) 2000, pp. 53–71, at p. 56. In this sense, the approach put forward here complements the burgeoning work on the integration of historical sociology and international relations.

and normative conditions only so far as it does not violate broadly held social norms on justifiable forms of economic action. Accordingly, non-elite groups have both agency and causal influence on state capacity, and can actively shape what forms of economic activity can be justified according to changing normative conditions (such as raised expectations on what economic privileges the state should provide). This is an aspect of change in the international political economy that ‘economic constructivists’ have not sufficiently addressed, as they prefer to examine the creation of international normative obligations concerning economic activity that are then placed on states and societies. Nevertheless, there is significant theoretical and empirical pay-off in marrying the weight given to normative factors found in economic constructivism with insights on economic social action found in Weberian economic sociology. The key point here is that investigating a state’s legitimation of financial reform nexuses for lower-income groupings provides insight into the social sources of international financial hegemonies. The following sections outline why this is the case and the benefits of this understanding of change to international financial hegemonies over time.

THE ENGLISH FINANCIAL REFORM NEXUS AND THE INTERNATIONAL RENTIER ECONOMY

Between 1840 and 1890, a period associated with the apex of English hegemony in the international political economy, the English state positively intervened in what I call its financial reform nexus—tax, property, and credit politics. The English state decreased indirect taxes that hurt the poor and increased income taxes on wealthy groups. It encouraged the development of joint-stock banks and the establishment of a Post Office


33 This happy marriage is provided in Seabrooke, ‘The social sources of financial power’. Alternatively, see the Polanyi-augmenting approach provided in Mark Blyth, Great transformations: Economic ideas and institutional change in the twentieth century (Cambridge: Cambridge University Press, 2002).
Bank system explicitly designed to LIGs’ savings and to reduce the government’s dependence upon the City of London (the City) for debt financing. In short, between 1840 and 1890 the high legitimation of the English financial reform nexus assisted the construction of English international financial hegemony from the nationwide deepening and broadening of credit generation.

Of course, I am not the first to note the importance of positive state intervention in the development of English capitalism. Max Weber recognised that the source of English financial power was positive state intervention: that the Bank of England (hereafter BoE) could legitimately link ‘state capitalism’ by aiding the expansion of empire for fiscal purposes, as well as facilitate domestic capitalism by introducing a widespread credit system. The spread of the BoE, from its foundation in 1694, developed by learning from the practices of goldsmiths to create a “banking system to connect savers and the English Treasury”. Following a return to a de facto Gold Standard in 1821, in 1826 the BoE declared its interest in extensive branch banking to increase the use of this system and to obtain even greater deposits from ‘every quarter of the Kingdom’. In turn, during the mid-nineteenth century the BoE’s branch banking systems provided capital to industries in the provinces (this was certainly the case up to 1900).

One important source of financial power for England during this period was the humble joint-stock bank. By 1810 there were 600 joint-stock banks in England, but they were considered financially unstable. Following the 1825 financial crisis, during which eight ‘country’ banks failed, the English state legalised joint-stock banking with the view that under state regulation their broader base would make them more stable. As a consequence, joint-

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stock banks ‘gained [capital] from all classes without exception’, providing an important example of the broader embeddedness of the English financial reform nexus in the 1840–90 period—especially as these same institutions would come to dominate English finance by 1900, albeit with very different characteristics.  

While it would be incorrect to argue that the lower-middle classes greatly contributed to English international financial power (this phenomena was unique to the US in the 1985–2000 period), the middle classes certainly did so, although their role lessened after 1900. For example, the economic historian Stanley Chapman describes the typical joint-stock bank for the period as comprising nearly 70 per cent middle class occupations (in order of representation: cotton spinners, retailers, corn merchants, linen merchants) with only 18 per cent represented by ‘Gentlemen, spinsters and a parson’ and ten per cent by professionals (lawyers and doctors). During the 1840s and 1850s deposits in these joint-stock banks comprised the largest part of the money supply and source of credit for the English financial system, which was then placed through London’s banks for investment in government securities, foreign loans and, particularly, for credit for international trade. Bill discounting by joint-stock banks rivaled private City of London banks as well as the BoE’s extensive operations during this period.

38 Interestingly, the diffuse character of joint-stock banks during this period is viewed by Adolf Weber as a great source of financial power. See Adolf Weber, Depositenbanken und spekulationsbanken: Ein vergleich deutschen und englischen bankwesens (Leipzig: Duncker & Humblot, 1902), pp. 36–7. The quote is from Joseph Mendelssohn’s account of finance in the English provinces—cited from Weber—which begins with: ‘in every city in Britain one finds bankers. They take money from and issue securities to any man’. My translation.


One clear example of positive state intervention was provided by W. E. Gladstone’s efforts in 1861 to create a Post Office Savings Bank system intended to provide a means of attracting deposits from the working classes which reflected the interests of the English state in intervening to alter the ‘portfolio choices of the privately controlled institutions to finance its needs or other desired social objectives, e.g. housing’. The Post Office Savings Bank system grew rapidly during the second half of the nineteenth century and at century’s end was nearly 2.5 times the size of the Trustee Savings Bank system and had five times as many members. Gladstone’s call for a Post Office Savings Bank system was also indicative of a growing dissatisfaction with the provision of credit for the social wants of LIGs. Gladstone, for example, argued that the provision of existent mortgages for housing was ‘anti-social and immoral’ in the way they were used in England to exploit LIGs. Gladstone’s call was responding to changes within the financial system as, from my estimates, mortgages as a percentage of financial assets in 1850 represented approximately 15 per cent and declined to eight per cent by 1913. Certainly mortgages as a percentage of total financial assets declined from 15.4 per cent in 1880 to 7.6 per cent in 1915 as rentier activity and increased dependence on foreign portfolio investment increased.

**English credit politics**

Between the private savings banks and the Post Office Savings Bank system it was hoped that a local savings bank system could be created that would offset the financial clout of the City of London. This did not happen. While savings banks’ deposits doubled during the last three


43 Private financial institutions were inadequate providers of mortgage credit, they lent at usurious rates to LIGs and, most commonly favourable rates to upper-middle class, ‘small fry’ landlords, as I discuss below. Offer, *Property and politics, 1870–1914*, p. 141.

decades of the nineteenth century, they stagnated in the Edwardian period due to a lack of state intervention. The irony here is that while the English state had legitimately extracted an income tax from the population since the 1850s (rising from 5 d in the pound in 1850 to 8 d in the pound by 1895), reduced indirect taxes with the repeal of the Corn Laws (which benefited lower-income groupings through cheaper food prices), and acknowledged the crisis with property politics in the 1900–15 period, its efforts on altering depository financial institutions fell far short. Despite positive state intervention in the 1840–90 period, changes thereafter reflected a rentier shift that was not strongly opposed by the English state and weakened the legitimation of the financial reform nexus for lower-income groupings. As a consequence the broadening and deepening of domestic capital was undermined and English international financial hegemony became increasingly dependent upon fragile rentier interests, including the construction of ‘Gentlemanly Capitalism’ (which I address below), despite the emergence of the Liberal Party as a socially progressive government.

While the ratio of provincial assets to London joint-stock bank assets was 3.2:1 in 1844, it was 1:1.06 by 1880 and worsened thereafter. According to Edgar Jaffé, a political economist of the period, the process of intense bank centralisation in the City of London was prominent only after 1890:

> It is not amazing that only in the 90s was the survival of provincial banks threatened when capital city banks turned the tables and sought to get hold of an advantage through the extension into the Provinces. On the part of the London and Provincial banks this furthered their concentration and drove a wedge between the [merged banks and] others, leading to today’s

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principle, that only big banks that are established both in London and the Provinces are competitive enough to fight their way through with a view of success.48

Lance Davis and Robert Gallman have recently referred to this process as ‘the breakdown of what had been for more than three decades, an efficient national market’.49 Following this change the BoE also pursued a ‘locks up’ policy that drained capital from the provinces to the central office without reciprocal credit extension. Ernest Edye, the Principal of Branch Banking for the BoE in the early 1900s, wrote that the role of the BoE in the provinces had dramatically shifted away from an interventionist role to a more discreet and inadequate private role:

The raison d’être of a Bank is to meet the legitimate requirements of its Customers, and if this is not the business of the Bank of England Branches … the question resolves itself into ‘what can the object of Branches be, except as profit earning branch establishments’?50

The absence of capital in the provinces—the home of the joint-stock bank during the ascendancy of English international financial hegemony—hit LIGs the hardest. The concentration of financial assets in the City of London did not, however, provide credit to LIGs in metropolitan areas. While the output of the financial services sector during 1900–15 nearly doubled compared to only a slight increase in the non-financial sector,51 credit provision to LIGs actually diminished during the 1900–15 period.52 Bank concentration led to depersonalised and centralised credit allocation and people in the provinces received less credit as a consequence.53

49 Davis and Gallman, Evolving financial markets and international capital flows, p. 809. See also Germain, The international organization of credit, pp. 48–9.
50 BoE Archive G/5/39 2486/1 Letter of May 1903.
depersonalisation of credit was not matched with positive state intervention to legitimise credit access to LIGs.

In assessing the growing disjuncture between social norms for English LIGs and state intervention into the financial reform nexus, the debates on property and taxation are the fiercest areas of contestation. They are also relevant to the sustenance of English international financial hegemony as they assist or inhibit the deepening and broadening of the domestic pool of capital.

**English tax politics**

First to taxation. By the early 1900s direct taxes had increased to 38 per cent of government income from 19 per cent in the 1870s and 33 per cent in 1900. Means of raising more taxes, particularly to meet the costs of the Boer War, led to a split in the Conservative Party over pursuing a policy of trade protectionism to increase fiscal coffers. Joseph Chamberlain, for example, called for tariff protectionism to provide tax relief to the Conservative constituency. He attempted to dress tariff protectionism as a broader societal interest and argued that income taxes would inhibit domestic economic consumption and lead to a stagnation of the economy. Such a policy shift was supported by financial elites despite the City’s supposed belief in a free trading world order. At the same time, as is well known, social liberals—most notably John A. Hobson—pointed to the potential for positive state intervention, through the implementation of increased income taxation on the wealthy, to boost broad domestic consumption and curb *rentiers’* ‘excessive incomes’ and their support of imperialist foreign economic policy. Following the installation of a Liberal government in 1905, and their electoral landslide of 1906, the Liberal Party pursued this policy, egged on by social reform


movements representing LIGs’ interests. However, the extent of positive state intervention must be questioned here.

The most well-known consequence of the Liberal Party’s socially progressive tax policies was the ‘People’s Budget’ of 1909–10.\textsuperscript{58} Indeed, the budget handed down on 29 April 1909 threatened to transform the English financial reform nexus, and rentiers’ interests, in favour of LIGs. The People’s Budget led to a marginal change for those at the bottom of the lower-middle class bracket (a two per cent decrease for those on £150 per annum), while there was a big difference for those toward the top and the quite wealthy (a 14 per cent reduction for those on £200 per annum and 11 or 12 per cent for those earning from £500 to £2,000 per annum). The biggest increases were on ‘unearned income’ (starting at a 13 per cent increase for those on £500 per annum, rising to a 77 per cent increase for those on £50,000 per annum), reflecting LIGs’ calls for action to be taken against rentier interests.\textsuperscript{59} However, the net take of the People’s Budget was minimal. For starters, when considering that only 30,000 English people earned over £3,000 per annum (0.08 per cent of the population), £2,000 is an extraordinarily generous annual income to attribute to LIGs. In addition, only 1.13 million people in total paid income tax, which obviously lessened the impact of the budget.\textsuperscript{60} When calculated as a proportion of government expenditure, the People’s Budget’s revenue enhancement was only 0.2 per cent of national income between the 1905–9 and 1910–13 periods, while government expenditure actually dropped 2.5 per cent.\textsuperscript{61} So while there was minimal relief on taxation for LIGs, it was insufficient to assist the

\textsuperscript{58} The best work in this area is Bruce Murray, \textit{The People’s Budget 1909–10: Lloyd George and liberal politics} (Oxford: Oxford University Press, 1980).

\textsuperscript{59} Hobson, \textit{The wealth of states}, p. 139, Table 4.7.


development of a broader social source of English financial power (through savings or consumption) and assisted the ‘years of frustration’ lower-income groupings felt about the Liberal Party immediately prior to the Great War.\textsuperscript{62}

**English property politics**

Property access was even more frustrating than taxation for LIGs, as the ‘land monopoly’ represented the ‘last remnant of feudalism which allowed land to be treated as a vehicle for achieving social status and political power rather than as an economic resource to be developed’.\textsuperscript{63} The Liberal government did not positively intervene on behalf of LIGs but, instead, provided tax concessions to agricultural landholders and urban landlords.\textsuperscript{64} The crisis on property flagged above by Gladstone intensified among LIGs in the 1900s. Access to property, or more appropriately, access to credit for property presented a ‘major social standoff’ and a key source of the weakening legitimacy of the English financial reform nexus as intensifying social norms generated by English LIGs created social wants that the state was unwilling to intervene positively to support.

In the 1900s English dominant economic groups viewed land as a politically dangerous investment in the domestic context and preferred foreign portfolio investment in industries such as mining and shipping.\textsuperscript{65} While home ownership was a well-documented aspiration for LIGs, only 10.6 per cent of households in England were owner-occupied in 1914—and most of those in the northern provinces.\textsuperscript{66} Reluctance to invest in mortgages represented a normative shift in the English financial system and reflected the construction of ‘Gentlemanly Capitalism’. Much of the reluctance toward mortgage credit came from the perception that the banker would


\textsuperscript{63} Ibid., p. 143.


accept ‘urban land as collateral only with the gravest misgivings and placed it among the lowest grades of security’.67 This is not to say, however, that credit was not available for the right groups. There was real growth of 100 per cent, between 1900 and 1914, of ‘small fry’ property owners who owned more than seven or eight properties.68 Furthermore, the lending for owner-occupied housing that did occur to LIGs was often at usurious rates, where ‘normal’ interest rates would be doubled to account for the risk of lending to persons of lesser means.69 Winston Churchill, as ‘young man in a hurry’ social reformist,70 recognised the crucial need for the English state to legitimise the financial reform nexus with regard to property, and linked the issue to taxation in a 1908 speech:

They [the Liberals] must go forward and repeat in the arena of local taxation the same sort of triumphs as were won sixty years ago in the arena of national taxation when the Corn Laws were repealed … Under the old system people had dear food, under the present system they had dear houses… [what is required is] an equitable partition of corporate and individual increments from day to day and from year to year through the operation of just law regulating the acquisition of wealth.71

As recognised by Churchill, to bolster the legitimacy of the English financial system the Liberal Party needed to provide LIGs with greater access to credit and defend their interests against dominant economic groups guarding their political and social position. One notable achievement of this period is the construction of ‘Gentlemanly Capitalism’ as ‘natural’; that regressive changes to the English financial reform nexus, and the widening gulf between LIGs’ social wants and the state’s willingness to positively intervene to meet them, had been predetermined. But, as outlined above, the concentration of capital in the City was a post-1890 phenomenon.

67 Ibid., p. 114.
68 Ibid., p. 119.
71 The Times, 22 April 1908. My emphasis.
Compounding these problems with taxation and property, the Liberal Party did not assist the development of credit institutions for lower-income groupings. Indeed, the initiatives of the 1840–90 period that reflected positive state intervention were crumbling. For example, the number of depositors at Trustee Savings Banks and Post Office Savings Banks dropped by 16 per cent, with savings going into immediate consumption in the absence of social alternatives.\(^\text{72}\) Why didn’t the English state positively intervene to provide credit for property and seriously minimise tax burdens for lower-income groupings? To quote George Dangerfield, the Liberal Party was stuck behind ‘a barrier of Capital which they dared not attack’, while the \textit{rentier} were increasingly concentrating capital and investing it in ‘imperialist’ projects.\(^\text{73}\)

While during the 1840–90 period the English state did positively intervene to create a broad social source of financial power to support English international financial hegemony, after 1890 the concentration of capital in the City, the BoE’s ‘locks-up’ policy and the intensification of a defence from elites on political and social premiums attached to property were not addressed by the state. Increasingly assessments of creditworthiness were ‘professionalised’ but also became more dependent upon personal connections among \textit{rentier}.\(^\text{74}\) As English LIGs called for social reform to tax, property, and credit politics, Gentlemanly Capitalists responded by altering the English financial system to focus on increased international \textit{rentier} investment from London. Faced with no serious challenge from the English state, English international financial capacity became increasingly dependent on domestic \textit{rentiers}. Given English dominance in the international financial order from the nineteenth century, an ‘international \textit{rentier} economy’ was the consequence, reflecting domestic \textit{rentierism}. Accordingly, the dominant English legitimising framework of the international \textit{rentier} economy rested on the increasingly shaky domestic legitimation of the English financial reform nexus.

\(^{72}\) Davis and Gallman, \textit{Evolving financial markets and international capital flows}, p. 134.


\(^{74}\) Nigel Thrift and Andrew Leyshon, ‘A phantom state? The de-traditionalization of money, the international financial system and international financial centres’, \textit{Political Geography} 13(4) 1994, pp. 299–327, at p. 316.
THE INTERNATIONAL RENTIER ECONOMY

England’s treatment of the Gold Standard, its treatment of international financial regulation, and the types of investment predominant throughout the period reflected aspects of the domestic legitimation of the financial reform nexus. I deal with each briefly.

First, while some IPE scholars have pointed to England’s ‘true “hegemony”, as Gramsci used the term’ in orchestrating the Gold Standard,75 the key characteristic of the English management of the Gold Standard was its ‘hands-off’ approach. While England actively sought to extend the ‘rules and institutional arrangements, adopted after the Napoleonic War, for the regulation of the metropolitan money supply to its extensive colonies and dominions overseas’, it did not seek to intervene in the behaviour of other states or to seriously cajole them into following a path that would not normally be in their own interest.76 When not seen through the lens of US postwar ‘hegemony’, England was less powerful than previously thought and could only manage the Gold Standard in negotiation with other powers.77 John Clapham, for example, argues that before 1918 the ‘Bank was amazingly detached from international affairs; heard from no one; saw no one; only watched the gold and took the necessary steps automatically’.78 While England was able to extract a ‘fiscal transnationalism’, as states conformed to the basic structure of the Gold

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Standard and used sterling, England took no hegemonic responsibility for regulating the ‘international rentier economy’.\(^{79}\)

Second, a lack of hegemonic responsibility was also a reflection of domestic views towards the assessment of creditworthiness, particularly that while rentier depended on the English state’s imperial naval defence system to overcome problems in assessing the creditworthiness of states they invested in, it dismissed any international financial regulation that would increase scrutiny on the creditworthiness of English investors themselves.\(^{80}\)

In the 1900–15 period, developing states received 63 per cent of global foreign direct investment, whereas in the 1985–2000 period they received only 28 per cent.\(^{81}\) Due to problems in assessing the creditworthiness of states receiving investment, 85 per cent of English overseas portfolio investment was in moderate-to-high risk debt securities, which financed governments that could be punished, or industries such as railways, mining, metallurgy, and telephony that were under English control.\(^{82}\) English investors called upon the English state to threaten the use of force to guarantee financial returns (as occurred in Latin American states numerous times during the early 1900s).\(^{83}\) Groups such as the English Corporation for

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80 At the same time, rentier rejected increased direct taxation to pay for social reform, or even for a military build-up that could stave off international antagonisms. Also of interest is the prestige associated with dreadnoughts and their relationship to a state’s finances. See Niall Ferguson, *The cash nexus: Money and power in the modern world, 1700–2000* (London: Penguin, 2001), pp. 42–3.


83 The most profitable of foreign investments during the 1900–15 period were Argentinean railway bonds, for which the capital came from English investors and where English naval intervention into Argentina was explicitly stated, should there be a default on investment. This was not an idle threat, as was realised in Venezuela in 1903 and Peru in 1907. Luis Drago, the Argentinean jurist and foreign minister in the early 1900s, argued that ‘Britain’s normal, if not absolutely invariable practice has been to take coercive military or naval measures, or to threaten them, in defense of her citizens, only when these were wronged by the seizure of their property or by personal injuries’. Cited in Charles Lipson, *Standing guard: Protecting foreign capital in the nineteenth and twentieth centuries*.
Foreign Bondholders provoked the English state into threatening debtor states to enforce the payment of private loans, or face international ‘blacklisting’.\textsuperscript{84} International creditworthiness reflected English rentier interests; that in the absence of face-to-face establishment of creditworthiness the only alternatives were denial of credit (in the domestic context for English LIGs) or the use of force (in the international context). English rentier investors did not favour international financial regulation to assess creditworthiness, and the legitimising framework rested on military rather than regulatory might. The inadequacy of this grounding for English international financial hegemony can be seen in England’s failure to sign international agreements to regulate international trading in bills of exchange, but buckling under moral suasion to sign an international agreement condemning the use of force to secure private foreign financial investments.\textsuperscript{85}

Third, the types of investment favoured by English investors, the rejection of international financial regulation, and the attitude toward the use of force to secure returns on investment typified English norms in the ‘international rentier economy’. As English financial hegemony rested on rentier norms, its foundations were increasingly shaky, particularly as LIGs railed against rentier behaviour, and English middle-class ‘superloyal schizoids’ came to question their strange combination of state liberalism and


\textsuperscript{84} As happened in 1911 to Ecuador, which was refused credit from the US on the basis of having been ‘written off’ by the Corporation for Foreign Bondholders. See Davis and Huttenback,\textit{Mammon and the pursuit of empire}, pp. 263–4; Herbert Feis, \textit{Europe the world’s banker, 1870–1914}: An account of European foreign investment and the connection of world finance with diplomacy before the war (New Haven: Yale University Press, 1930), p. 113. Furthermore, unlike the 1985–2000 period, there was no severe penalty (like the Japan premium) for bucking the system.

\textsuperscript{85} At the Hague Conference of 1907 the US persuaded England to sign onto the Drago Doctrine (named after the Argentinian jurist and foreign minister) that limited the use of force against defaulters and, instead, recommended international arbitration. On the bills of exchange convention see BoE Archives, CCO 1094 – Institute of Bankers, Correspondence relating to Conference on Bills of Exchange and Cheques at The Hague, June 1912.
imperialism. Given that England did not have a highly legitimate financial reform nexus, its means to cope with the financial shock of the Great War were much reduced, and nor could it sustain its selective international rentier behaviour. As a consequence, not only did the Great War shatter the Gold Standard, England was not able to re-establish itself as the hegemonic force in the international financial order following the conflict. In part this was, once more, a consequence of England’s choice of investments, as states with large investments abroad were the most damaged by the financial shock of the Great War. England’s problems in assessing creditworthiness at home and abroad led to the development of an ‘international rentier economy’ in which the use of force was associated with the potential for increased investment. This link between militarism and rentier interests proved unsustainable.

THE US FINANCIAL REFORM NEXUS AND THE INTERNATIONAL CREDITOR ECONOMY

In 1985 the US was principal in the international financial order and also its largest debtor. This was also the period in which the strongest statements about US hegemonic decline emerged. For many political economists the starting point for the decline of US international financial hegemony has been traditionally associated with the collapse of the Bretton Woods system and the US’s inability to persuade ‘others to follow a given course of action which might not be in the follower’s short run interest’. More recently, however, a number of arguments concerning the US’s use of ‘structural power’ post-Bretton Woods have put forward the view that US hegemony in international finance did not erode but became


87  Ingham, Capitalism divided?, p. 174.

88  Daniel Verdier, ‘Domestic responses to capital market internationalization under the gold standard, 1870–1914’, International Organization 52(1) 1998, pp. 1–34, at pp. 27, 29. Indeed, England was far more dependent on the international financial order in the 1900–15 period than the US in the 1985–2000 period. The US’s share of global foreign assets in 1995 was a mere 22 per cent compared with England which, at its height, held 80 per cent of global foreign investments.

more ‘market-based’.\textsuperscript{90} From this view US hegemony entailed permitting the foreign subsidiaries of US private financial institutions to generate credit in the international financial order without inflationary effects at home. The collapse of Bretton Woods and shuffling off of the gold-dollar standard permitted an expansion of private capital within the international financial system that served US interests.

While explanations of more diffuse forms of manipulation by US international financial hegemony have become commonplace, the mid-1980s were still viewed as a period of internal decline that would inevitably lead to hegemonic decline in international finance. Much of this literature was based on the notion of the US as an exceptionally weak state due to its lack of regulatory centralisation and the dominance of pluralist groups which allow the state to provide only a ‘reactive approach to policy-making, focussing on narrow, short-term issues and suffer\[ing\] from weak state capacity as a consequence’.\textsuperscript{91} One of the most forceful expressions of this argument comes from Philip Cerny, who argues that the long process of financial reform in the 1980s was ‘not only symptomatic of American failure to adapt to the loss of hegemony more widely, but also a central cause of this loss’. Cerny’s argument centres on the concept of the US being in a state of regulatory ‘gridlock’, whereby its fragmented structure blocks necessary changes to its financial system while, at the same time, global finance increasingly alienates the state and begins to exercise power in interstate relations.\textsuperscript{92}

\textsuperscript{90} Helleiner, ‘Explaining the globalization of financial markets’, p. 323.


In contrast to these views I argue that the US used positive state intervention that provided lower-income groupings with increased representation across the financial reform nexus. I suggest here that while regulatory overlap is certainly a feature of the US system, it increased regulatory assistance for access to credit, improved access for owner-occupied property, and introduced progressive tax reforms that reflected lower-income groupings’ social wants. Second, in contrast to the English case, the processes of bank concentration and securitisation coincided with increased community-driven regulatory initiatives to ensure credit provision to lower-income groupings. Such ‘national activism’ included a redistributive norm of social fairness and was coupled with exported norms of ‘international passivity’ (emphasising creditworthiness and entrepreneurship). In short, the view expressed here is that the US turned away from becoming a rentier economy post-1985 and its international financial hegemony generated an ‘international creditor economy’.

This view will surprise many in an IPE audience due to the common perception that the US is minimal interventionist and systematically fails to represent the interests of non-elites in preference to a rentier elite. I find that US social norms do not lead to rallying against income disparity but do lead to rallying for increased access to credit for LIGs. Thus the legitimation of the US financial reform nexus relies on social norms that include entrepreneurial access to credit and property rather than directly addressing income inequality.

93 A securitised asset is a regulated flow of capital that has been ‘packaged’ or ‘pooled’ and then sold by a financial intermediary (bank, finance company, etc.) to a third party, who then uses the income stream for an asset-backed security that is sold to investors—overwhelmingly corporate investors. In doing so, the original intermediary removes the asset from their balance sheet. The securitised asset includes the total amount outstanding (on a mortgage obligation, for instance) and all payable income that has been securitised in present and previous months (fixed payments). The introduction of third and fourth parties to the credit–debt relationship under securitisation intensifies the need for the state to intervene to legitimise ‘promises to pay’.


study of the legitimation of state power in the US, for good or bad, must take such perceptions into account. In accordance with US LIGs’ wants I identify their legitimation of the US financial reform nexus with increased participation in accessing credit, property, and a lower tax burden. I wish to make three points before connecting the domestic to the international.

**US tax politics**

First, the US did take a rentier shift during the first Reagan administration (and again under the current George W. Bush administration). In the English case we found that there was a shift in power towards the conservative City and against the provinces from the 1890s that intensified after 1900. In the US case there was a massive increase in the amount of private capital in the international political economy after 1970 and by 1980 the formation of a conservative bloc under a Republican Party that was elected on arguments for monetary responsibility and fiscal constraint (including significant tax cuts). The Reagan administration in its first term (1981–84) pushed forward an agenda that directly supported rentier interests across the financial reform nexus. The Depository Institutions Deregulation and Monetary Control Act (DIDMCA) of 1980, the Tax Reform Act of 1981 (TRA ’81), and the Garn-St. Germain Act of 1982 (G.St.GA) provide significant examples from this period. The DIDMCA of 1980 removed interest rate ceilings (Regulation Q), which had impeded commercial banks’ and Savings and Loans institutions’ (S&Ls) capacity to attract deposits at a time when non-bank financial intermediaries (NBFIs) were offering cash management accounts that provided higher returns. The DIDMCA also eliminated ceilings for usury during a time

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96 Paul Volcker argued at the time that ‘There is no way we can avoid a clash between monetary restraint ... and the growth of economic activity’. Changes to the financial system to support entrepreneurial drive sought to avoid this problem but favoured only the better-off. See Steven A. Ramirez, ‘Depoliticizing financial regulation’, *William and Mary Law Review* 41(2) 2000, pp. 503–71, at p. 523. On the expansion of private capital after 1970 see Germain, *The international organization of credit*, pp. 110–18.


of high inflation, a change that affected lower-income groupings negatively since they were the biggest clients of usurious or ‘sub-prime’ lenders. TRA ’81 provided a 23 per cent income tax cut but, importantly, permitted the deduction of payments on non-owner-occupied residential and commercial mortgage interest payments from income tax assessment. The G.St.GA directly led to the S&Ls and commercial bank crises of the mid-to-late 1980s by permitting individual ownership of S&Ls, effectively encouraging what were community financial institutions to be taken up by individuals for speculative purposes. The changes to the financial reform nexus for lower-income groupings led to greater restrictions on credit and property access, as well as an increased tax burden. It weakened the legitimation of state power and therefore provided a means of undermining US international financial hegemony.

The Reagan rentier shift did not last long and was soon reversed following a Democrat majority in the House and Senate. Negative state intervention was then replaced with positive state intervention. A series of regulations after 1988 represented the capacity of the US government to implement major socially progressive financial reform to create an ‘efficient and equitable financial structure … to legitimize itself in the eyes of the public’. Financial reforms in response to the crisis in American banking


101 Ann Meyerson, ‘The changing structure of housing finance in the United States’, in Sarah Rosenberry and Chester Hartman, eds, Housing issues of the 1990s (New York: Praeger, 1989), pp. 155–89, at pp. 164–5. Regulatory reforms that come to mind include the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) of 1989, which established new institutions; and the FDIC Improvement Act (FDICIA) that provided $70 billion to pay depositors who had lost monies from collapsed banks and increased the FDIC’s borrowing powers from the Treasury from $5 billion to $30 billion to provide more substantive deposit insurance. See Gary A. Dymski, ‘How to rebuild the US financial structure: Level the playing field and renew the social contract’, in Gary A. Dymski, Gerard Epstein, and Robert Pollin, eds, Transforming the US financial system: Equity
and S&Ls included important social reform provisions, such as increasing lower-income groupings’ access to housing, as well as new regulations on assessments of creditworthiness for low-income groups. On taxation the 1986 tax reform represented a dramatic shift. The reform removed the capacity to deduct interest repayment on commercial property, non-owner-occupier residential property, and consumer credit from one’s income tax.\textsuperscript{102} Instead it encouraged owner-occupier deductibility scaled to benefit lower-income groupings.\textsuperscript{103} Furthermore, a recent congressional study of Internal Revenue Service data reveals that in 1988 the top ten per cent of taxpayers paid 57.2 per cent of all income tax compared with 48 per cent in 1981; those in the 50th to 90th percentile paid 48.7 per cent in 1988 compared with 57.5 per cent in 1981 and those in the bottom 49 per cent of taxpayers paid 5.7 per cent in 1988 compared with 7.5 per cent in 1981.\textsuperscript{104} When compared to the minimal benefits of the much lauded People’s Budget in England, the 1986 tax reforms represented a revolution in socially progressive taxation.

**US property politics**

Second, the US positively intervened to provide greater credit access and property access to lower-income groupings through regulations on financial institutions and for financial innovations, with significant international benefits for US intermediaries. Especially prominent in this story are what can be grouped together as Federal Mortgage Agencies (FMAs,
including Fannie Mae, Ginnie Mae, and Freddie Mac), for whom, with ‘relatively small exceptions, the bulk of capital supplied through these entities fund residential mortgages’. Following financial reforms in the mid-1980s that permitted the securitisation of mortgages, the FMAs grew more than sixfold during the 1985–2000 period, only lagging in their growth rate behind mutual funds and issuers of asset-backed securities. By 2000 FMAs were placed alongside private pension funds, and only one per cent behind commercial banks, as the biggest asset holder among US key financial institutions. This massive expansion went hand-in-hand with the growth of mortgage securitisation following regulatory reforms in the mid-1980s. Through positive state intervention the US could deepen and broaden the domestic pool of capital, some of which could then be used internationally, through financial innovations targeted at lower-income groupings. Thus, while in 1981 only four per cent of mortgages were securitised, by 1989 this figure rose to 69 per cent. At the same

The status of these agencies can be referred to as public or quasi-public. Ginnie Mae is owned by the US government, and Freddie Mac and Fannie Mae are sponsored by the US government, although Fannie Mae is technically owned by private shareholders. They all draw upon credit from US Treasury debt at a comparative advantage to private institutions. It is therefore unproblematic to classify them as state entities. Ginnie Mae’s official mandate is to enhance the secondary mortgage market for mortgages guaranteed by the Federal Housing Administration (FHA) and the Veterans’ Administration (VA) and is under the control of the Department of Housing and Urban Development (HUD). Freddie Mac’s mandate is to provide a secondary market for conventional mortgage and its stock is held within the Federal Home Loan Bank (FHLB) system. Fannie Mae’s mandate is to sell conventional, FHA and VA guaranteed mortgages and it is therefore the most flexible of the siblings.


time the required down payment to access a loan for owner-occupied property dropped from 15 per cent to three per cent (with Department of Housing and Urban Development support). Under the Clinton administration levels of owner-occupied housing reached an historic high. This was the case for LIGs, particularly low-income African-Americans.

An examination of changes in US household portfolios shows an increase in financial assets as a percentage of all household assets from 29.4 per cent in 1983 to 40 per cent in 1998. Much of this growth can be attributed to the role of FMAs, as owner-occupied mortgage indebtedness increased by over ten per cent, even though there was a reduction in indebtedness for landlord investment. There is a clear connection between increased mortgage indebtedness for lower-income groupings and the role of FMAs. In 1994 and 1999 borrowing by these agencies to provide mortgage credit to Americans equalled over 60 per cent of outstanding US Treasury debt. Moreover, while the capital going into this system is primarily domestic, in 1999 28 per cent of the capital in the system came from foreign investors, who were primarily Japanese and, increasingly, Chinese. A once domestic mortgage market now provided a stable source of returns for US financial interests operating in the international financial order; and a more sustainable basis for an ‘international creditor economy’ than the conditions provided in the English case.

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110 Douglas D. Evanoff and Lewis M. Segal, ‘CRA and fair lending regulations: Resulting trends in mortgage lending’, Economic Perspectives 20(6) 2000, pp. 19–46, at pp. 33–7. Furthermore, denial rates for mortgages for African-American families declined in the early 1990s to the same level as white households. There has also been a surge in home ownership among Hispanic communities, who have consistently had higher home ownership rates than African-Americans.
US credit politics
Third, on top of the emboldened role of FMAs, positive state intervention increased during the Clinton administration to assist lower-income groupings with credit access during a time of bank concentration. For example, the Riegle-Neal Interstate Banking Efficiency Act (RNIBEA), which revised the McFadden Act of 1927 and permitted interstate banking, was coupled with the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA). This second act provided for Community Development Financial Institutions, and the Home Owner Equity Protection Act (HOEPA), which required regulators to impose premiums on any financial intermediaries offering sub-prime mortgage rates, as well as for all financial institutions to disclose information fully on mortgage availability and conditions.113 The act also included $382 million to assist with credit provision for low-income owner-occupied housing.114 More significant was bolstering of the Community Reinvestment Act (CRA) of 1977 that monitors and penalises banks that ‘redline’ (totally restrict credit access) to low income communities, primarily through targeting sub-prime lenders for penalties. The CRA appeals to ‘the notion of corrective justice, the normative idea that compensation should be made for past inequities … [to] transfer resources to precisely the same groups that the earlier discriminatory policies transferred resources from—nearly creditworthy low-income homeowners’.115 While bank lobby groups complained that the legislation was unfairly ‘aimed at redistributing resources [from commercial banks] to low-income neighborhoods’, it demonstrated positive state intervention that broadened and deepened the domestic pool of capital and legitimised

113 Any interest rate which was ten per cent above the Treasury rate was classified as sub-prime. See ‘The Riegle Community Development and Regulatory Improvement Act of 1994’, H. R. 3474, 103rd Congress, Second Session.

114 During my interview sessions in Washington DC it was made abundantly clear that the Clinton administration had reached into community groups to further the legitimation of the US financial reform nexus. Personal interviews with staff of US Federal Reserve, and Josh Silver, National Community Reinvestment Coalition, November 2001.

the financial reform nexus for lower-income groupings.\footnote{See, for example, ibid., pp. 35–8; Federal Deposit Insurance Corporation, \textit{History of the eighties}, p. 128.} As a consequence of this positive state intervention and the FMAs mentioned above, from 1993 to 1997 mortgages for low-income borrowers increased by 31 per cent, with a 53 per cent increase for low-income minority groups compared to 18 per cent for all borrowers on 120 per cent of median income.\footnote{Robert B. Avery, Raphael W. Bostic, Paul S. Calem and Glenn B. Canner, ‘Trends in home purchase lending: Consolidation and the Community Reinvestment Act’, \textit{Federal Reserve Bulletin} 85(2) 1999, pp. 81–102, at p. 88.} By 1999 low-income borrowers received 30.7 per cent of all mortgage loans, compared to 18.5 per cent in 1990. It has been estimated that lending under CRA provisions from 1992 to 2000 amounted to just under $1 trillion, highlighting the importance of the regulation not only for social equity but the generation of credit within the US financial system.\footnote{Testimony of John E. Taylor, President of the NCRC, before the Senate Committee on Banking, Housing and Urban Affairs. Taylor points out that of the $912 billion in CRA loans, only $9.5 billion was in the form of grants and that only $160,000 of CRA funding went to administrative costs of CRA advocacy groups. Cited from ‘NCRC reiterates support for presidential veto of banking bill’, \textit{US Newswire}, 4 November 1999.} While banks became more concentrated in England during the 1900–15 period and lent less domestically as they expanded their role internationally, US banks did the opposite while still expanding their prominence internationally.\footnote{In England during the 1900–15 period there was a decline in bank loans and advances from 30 to 20 per cent of total assets. Calculated from Sheppard, \textit{The growth of UK financial institutions, 1880–1962}, p. 184. To illustrate English primacy in the international financial order, in 1913, 40 per cent of equity raised globally was raised in London. See Ranald Michie, \textit{The London and New York Stock Exchanges, 1850–1914} (London: Allen & Unwin, 1987), p. 91; and Cassis, ‘British finance’, p. 1. In the late 1990s US banks had 28 per cent of the financial services market, up from 14 per cent at the close of the 1970s. See ‘On a wing and a prayer’, \textit{Economist}, 7 April 1999, p. 4.} By the mid-1990s US banks were lending more than in 1985 and, due to positive state intervention, were lending more to LIGs than ever.

How do these changes to the US financial reform nexus relate to US international financial hegemony? While domestically the US increasingly regulated during the 1985–2000 period to increase the creditworthiness of LIGs, internationally it encouraged regulation to improve international
assessments of creditworthiness. Rather than relying on the threat of physical force to combat uncertainty surrounding creditworthiness, or concentrate overwhelmingly on portfolio investment, US international financial hegemony encouraged regulation to assess international creditworthiness reflecting domestic changes. My argument here is not that this construction of creditworthiness provided a greater ‘good’ than in the previously international financial hegemony, but it was entirely in accordance with US domestic entrepreneurial norms, as US financial institutions and investors sought to calculate their risks. As a consequence, US investment, in contrast to English investment in the 1900–15 period, was more heavily involved with direct investment than in debt securities. Unlike the English case, increased credit generation under US international financial hegemony did not decrease domestic credit generation. During the 1985–2000 period credit generation was not tied to the ‘ideological fiction’ of a gold standard, and the ongoing generation of credit, at home and abroad, was possible provided there were means of assessing and enforcing creditworthiness.\(^{120}\)

A driving force behind the changing structure of the ‘international creditor economy’ during the 1985–2000 period was the legitimation of the US domestic financial reform nexus. The rejection of the first Reagan administration’s \textit{rentier} push, the clean-up following the S&L and commercial bank crises, and the implementation of regulations that required banks to disclose information on their lending activities according to gender, race, geographic location and socioeconomic status deepened and broadened the domestic pool of capital. Further reforms under the Clinton administration bolstered regulation to assess who was receiving credit, including the 1994 augmentation of the Community Reinvestment Act that

placed commercial banks’ lending to LIGs under scrutiny. The thick legitimation of positive state intervention for LIGs within the US domestic financial reform nexus influenced the thin legitimation of nascent international financial regulation, as it sought the same purpose without a strong redistributive or social justice dimension.

THE INTERNATIONAL ‘CREDITOR’ ECONOMY

In the ‘international creditor economy’ of 1985–2000 the US fostered assessments of creditworthiness by encouraging international institutions that were recognised as legitimate actors in the international financial order officially separate from direct US control. Accordingly, recalcitrants were punished with premiums on borrowings or were forced to withdraw from international activity. For example, due to the ‘Japan premium’ and Basle Accord requirements, 30 Japanese banks withdrew from international operations in 1997–98 alone. In fact, the Basle Accord, which represents the most significant international financial regime during the 1985–2000 period demonstrates that the US encouraged regulation that would enhance the assessment of creditworthiness, as well as increase the extractive capacity of its ‘Imperial Tax’ through the fiscal windfall it provided.

121 Changes were made in 1989 under the Financial Institutions Reform, Recovery and Enforcement Act of 1989, in 1991, such as the Home Mortgage Disclosure Act, and 1994 under the Riegle Community Development and Regulatory Improvement Act of 1994. A defence against Republican revisions to the Truth in Lending Act was provided in 1995 with the blocking of a proposed change to limit class action liability for mortgage lenders. See US House of Representatives Committee on Banking and Financial Services, ‘The Financial Institutions Regulatory Relief Act of 1995’, H. R. 1362, 104th Congress, First Session.


Furthermore, from the late-1980s the Group of Seven (G-7—the US, Japan, United Kingdom, France, Germany, Canada and Italy) met with the International Monetary Fund (IMF) to coordinate financial information and augment the IMF’s surveillance capacities to become the ‘very core of the institution’.\textsuperscript{124} But surveillance did not result in an expanded financial capacity for the IMF because the US used its veto powers (as it holds 18 per cent of votes) to block special decisions made by the IMF in times of financial crisis (such as the US Congress’s rejection of an IMF loan to Mexico in 1995 and refusal to approve an $18 billion IMF loan during the Asian financial crisis).\textsuperscript{125} In fact, while the IMF’s surveillance powers were heightened during 1985–2000, its working capital was seriously run down over the postwar period (from being equivalent to 12.8 per cent of the value of world imports in 1948 to 3.5 per cent in 1998).\textsuperscript{126} This is entirely consistent with the US entrepreneurial norms that enhanced the assessment of creditworthiness, while promoting a redistributive norm for credit and property access only in the domestic context.

The proliferation of common standards within the society of states in the ‘international creditor economy’ ballooned in number in the 1990s. For example, from the mid-1990s the Bank for International Settlements (hereafter BIS) and the IMF put in place data dissemination standards for their members. From the mid-1990s the G-7 leaders met to discuss plans for a new ‘Global Financial Architecture’, and in 1999 the G-10 created a Financial Stability Forum in coordination with the BIS, IMF, and the World Bank.\textsuperscript{127} Importantly, in June 1999 the G-7 promoted the use of the IMF’s

\textsuperscript{124} Pauly, \textit{Who elected the bankers?}, pp. 41, 129.
new *Code of good banking practices in the area of monetary and financial transparency*, which recognised the need for capital controls in times of emergency. The G-7 also expanded to a G-20 in order to increase the number of developing states involved in determining the new structure of financial regulation. As pointed out by Randall Germain, the international financial order in the late 1990s became characterised by a regulatory and normative structure with an increasing focus on creditworthiness that augmented the participation of developing states:

It is an open question as to how emerging market economies will actually use the G-20 and, in particular, whether they will be co-opted by the G-7 into prevailing industrializing country norms and expectations about financial governance. But one thing is certain: prior to 1999 co-option (together with its attendant promises of compromise and give-and-take) was not even on the agenda. Specifically, prior to 1999 all of the major decisions in terms of governing global finance were taken by the G-7 countries (or, by extension, the G-10). With the G-20 and the FSF [Financial Stability Forum] now established as part of the new global architecture of financial governance, at least the possibility exists of having to negotiate the terms and conditions of governance. This must surely be ranked as an achievement of historic proportions, even if much remains to be worked out.

Thus, while developing states in the 1985–2000 period were under far more international regulatory scrutiny than during 1900–15, they were largely removed from the threat of force to guarantee returns on investment, and becoming a consultative force. Furthermore, in September 1999 the
US Congress introduced bills to widen the definition of money-laundering activities to include the misuse of IMF funds and frauds committed against foreign governments.  

The dominant legitimating framework in the international creditor economy can be understood as the enforcement of western ‘universal’ financial norms upon states that in no way allows different interpretations of standards of creditworthiness or financial practices according to domestic social norms. While this is undoubtedly true and has serious negative political, economic and social consequences, the international creditor economy under US international financial hegemony also coincides with a period in which non-elites are more able to justify claims made against their governments. This is a particularly important point given the oft noted constraint of financial globalisation (remarked on at the start of the paper). Recent research increasingly demonstrates that states do have ‘room to move’ under US international financial hegemony, particularly developed states, which stresses the capacity of non-elites to transform their own political and economic environments despite government appeals to the inevitability of financial market constraints. Layna Mosley’s recent study found that in assessing creditworthiness, financial markets are interested in the stability of monetary policy, not in who governs the state under examination or, in how much and—importantly for the domestic legitimation of a financial reform nexus—in what ways governments spend their budgets. This ‘room to move’ is more constricted in developing states. All of these international changes described above were geared to legitimise assessments of creditworthiness and provide the means to differentiate the ‘international rentier economy’ from the ‘international creditor economy’. Despite the massive amounts of private capital in the system, the regulatory and normative framework of the financial markets’, NBER Working Paper No. 9019 (Cambridge, Mass.: National Bureau of Economic Research, 2002), pp. 5, 23–6; O’Rourke and Williamson, Globalization and history, Chapter 7.


132 Best, ‘From the top-down’, p. 4.

‘international creditor economy’ is a reflection of the extent of state intervention in financial systems, not its absence.134

CONCLUSION
This paper provides an analysis of the domestic legitimation of financial reform nexuses in England and the US during their periods of international financial hegemony. The above vignettes on the domestic sources of financial power are intended to emphasise the role of LIGs in underwriting international financial hegemonies. I also wish to stress the importance of a real or genuine view of consent and legitimacy in understanding the relationship between states and their societies and states and international political and economic change in different periods of time.

In the English case state action was out of step, despite professed intentions, with changing social norms among non-elites, permitting stronger support for rentier interests and a weakening of the social sources of financial power underpinning English international financial hegemony. England therefore represents a case in which a state transformed from, within the historical context, positive state intervention to a mild form of negative state intervention as the financial reform nexus became more regressive. The strength of English international financial hegemony reflected the increasingly unsteady foundations on which it had been built, suggesting one way to understand the incapacity of England to provide international financial hegemony following the Great War.

In the US case a post-1980 rentier shift was opposed after 1985 and positive state intervention legitimised the financial reform nexus for lower-income groups to a strong degree, permitting the broadening and deepening of the domestic pool of capital and the propagation of social norms on entrepreneurship, and creditworthiness, which were reflected in supporting US international financial hegemony. We can represent the relationship

134 Contrast with Daniel Verdier, ‘The rise and fall of state banking in OECD countries’, Comparative Studies 33(3) 2000, pp. 283–318, which argues that while class politics built state banking, neoliberalism destroyed it.
between changes to the domestic financial reform nexuses and the character of international financial hegemony in Figures 1 and 2 as so:

**Figure 1: Domestic legitimation of English financial reform nexus and the structure of the international financial order, 1900–15**

<table>
<thead>
<tr>
<th>Financial Reform Nexus</th>
<th>England</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax</td>
<td>Increasingly direct</td>
</tr>
<tr>
<td>Property</td>
<td>Disabled</td>
</tr>
<tr>
<td>Credit</td>
<td>Stagnated</td>
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</table>

Financial Reform

Contested but regressive

State Intervention

Positive until 1890, weakened thereafter

Legitimation of Financial Reform Nexus and International Financial Capacity

Moderate

Legitimation of ‘promises to pay’ to lower-income groupings disabled in Principal Great Power. Rival Great Powers unable to produce alternative framework for the international financial order

International Rentier Economy

As indicated by Figure 1 above and Figure 2 below, the key means of differentiating the two periods is the capacity of the state to intervene positively to transform the financial reform nexus to deepen and broaden the domestic pool of capital. The legitimation of these processes, the relationship between the state and lower-income groupings, have important international consequences. These differences also allow us to differentiate the international financial hegemonies of the 1900–15 period and the 1985–2000 period.

In Figure 1 we see that English international financial hegemony was premised on positive state intervention until 1890, but that the post-1890
rentier shift was not sufficiently opposed with state intervention. While there was some symbolic progressive ground on changes to taxation (as discussed above), property access was still disabled for lower-income groupings and credit access stagnated. In short, the legitimation of the English financial reform nexus among lower-income groupings weakened. As a consequence the English period of international financial hegemony could be increasingly characterised as an ‘international rentier economy’.

Figure 2: Domestic legitimation of US financial reform nexus and the structure of the international financial order, 1985–2000

In Figure 2 we see that US international financial hegemony was premised on positive state intervention, particularly following state intervention against the 1980–85 rentier shift. In the US case the financial reform nexus was transformed during the 1985–2000 period in a progressive manner, as tax burdens for lower-income groupings were lessened, while credit and property access was enabled. Particularly important to this story, as outlined
above, is the role of Federal Mortgage Agencies and the extent of positive state intervention to provide credit and property access to US lower-income groupings. The form of this positive state intervention provided means to generate, attract, and recycle capital with significant international consequences. Positive state intervention was therefore able to legitimise the financial reform nexus and deepen and broaden the domestic pool of capital, as well as propagate norms on financial practices that could be exported to support US international financial hegemony. Most important among these norms, drawing from ‘national activism’ and ‘international passivity’, was the absence of a redistributive norm for credit and property access but the strong emphasis placed on assessments of creditworthiness that could boost entrepreneurship. For these reasons I have referred to the 1985–2000 period as the ‘international creditor economy’.

It is perhaps of interest that following the introduction of the Bush administration there has been a clear rentier shift, with significant changes to the US financial reform nexus, particularly taxation changes that threaten lower-income groupings and that will weaken the depth and breadth of US domestic finance. Through the above cases I aim to provide a reminder of the importance of positive state intervention for states wishing to maintain their influence in the international political economy, and particularly for states wishing to maintain international financial hegemony.

In understanding the social sources of financial power—that links the legitimation of power within the domestic political economy to change in the international political economy—it is crucial that state intervention be disaggregated into positive and negative categories. Also vital is the emphasis on understanding legitimacy and consent as real, in order to permit the view that non-elites may transform their own political, social, and economic environments with strong consequences for the international political economy. Providing this kind of analysis takes us to the heart of Max Weber’s concern with the legitimation of state power for understanding domestic and international political and economic change. Furthermore, it is necessary to avoid the historical distortions described in the first section. Here I do not offer a climacteric, nor do I offer a story of continuity among

elite interests. Rather, I have provided an analysis in which non-elites’ relationship with the state is important in legitimising the social sources of financial power that can sustain international financial hegemony. I hope to have demonstrated the benefits of a reinvigorated neo-Weberian analysis of the domestic sources of international political and economic change, an analysis that places the spotlight on why state legitimacy and the consent of non-elite groups are important in understanding the construction of international financial hegemonies.
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