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Thiemann, Matthias
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Review Essays

American Hegemony and the Ascendance of Direct Finance

Matthias Thiemann

The Victory of Dividends: U.S. Power in International Finance
Leonard Seabrooke
(New York: Palgrave, 2001), 287 pages.

In the face of a financial crisis that rivals that which led to the Great Depression, scholars and the public alike are trying to understand how the international financial system got into this miserable state of affairs. To gain a better understanding of the current crisis, a look into the ascendance of equity and debt markets, of asset-backed securities and—more generally—of publicly traded credit seems advisable.

Direct financing—the increased use of debt and equity markets by financial intermediaries to create, buy and sell credit—has become a powerful factor in the political economy of most developed nations. In *The Victory of Dividends* Leonard Seabrooke provides an analysis of the international financial system from the perspective of its hegemon, the United States, over the period from 1960 to 2000. Focusing on the social powers promoting direct finance, Seabrooke argues that the growth of securitization and the trade in debt and equity markets were supported by the United States in order to enhance its structural power in the international system. This allowed the United States to extend credit beyond the needs of the real economy and to shape the international realm to sustain the substantive validity of the dollar.

The author challenges both neoliberal and neorealist views of the international political economy, which see the increasing indebtedness of the United States and its perceived incapacity to broker new international regimes after the demise of Bretton Woods as a clear indicator of hegemonic decline. In Seabrooke's view, the most important force in the promotion of direct financing lay in what he calls the competitive-cooperative relationship between Wall Street and Washington. This relationship allowed Washington to continually sell its government debt at low interest rates, implicitly taxing its major trading partners while generating profits for Wall Street through the continuing growth of securities markets.

Seabrooke argues that power in international finance derives much less from command over resources, but rather from access to resources and the capacity to shape the international framework in which their trade is negotiated. According to Seabrooke, the United States has been enormously successful in both fields. Financial diplomacy was used to open up foreign financial markets in order to attract

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foreign capital to the United States as well as to enact an international framework that favors the role of the dollar, and U.S. policies were geared toward perpetuating American hegemony. To attract capital, the depth and liquidity of domestic financial markets were crucial. These aims were furthered by financial innovation on Wall Street. It is on this phenomenon that Seabrooke bases his claim that the capacity of a state to "adapt to or enact change in the international financial realm" is derived from the state's relationship to its financial communities, as well as, the use of financial instruments by the population.

The capacity of the United States to mold the international financial system according to its preferences resided largely in the attractiveness of its debt and equity markets, which continually grew over the observed 40-year period. The growth of dollar-denominated assets provided investors with the capacity to ensure improved risk management and increased revenue, as a more liquid market affords better possibilities for risk adjustment. It facilitated the status of the dollar as the world currency reserve, which depends crucially on the capacity of other states to borrow in that currency.

The collaborative relationship of Wall Street and Washington consisted in persistently opposing any calls for international financial regulation that might oppose Wall Street's interests. In this perspective, the demise of Bretton Woods and the establishment of flexible exchange rates was thus less an evolutionary necessity, than a step in promoting the increased use of dollar-denominated assets in the eurodollar market to balance currency fluctuations. This implied an increased reliance on dollar-denominated assets by the international community, thus strengthening the structural power of the United States. Furthermore, the United States only enacted international financial regimes that generated positive externalities rather than internalizing negative externalities. Seabrooke's example is the Basel Accord, which imposed capital adequacy ratios for commercial banks that made U.S. Treasury bills more desirable. The collaborative relationship between Washington and Wall Street became competitive when Washington enforced strict regulation upon its financial intermediaries. Washington also imposed measures on banks, forcing them to loan to middle-class and working-class Americans, which escalated overall debt in the American public. Furthermore, the installation of secondary mortgage markets in 1984 increased the engagement of large investment and commercial banks in the domestic housing market by lowering the costs of borrowing for the American middle class. At this point one would wish that the author had analyzed Fannie Mae and Freddie Mac in more depth.

In the late 1990s, a relaxation of restrictions imposed upon banking, concomitant with the centralization of banking capital appeared to Seabrooke as a potential threat to U.S. structural power by decreasing the competitive relationship between Washington and Wall Street. He feared the advent of a tighter market for credit and

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a shift in the financial community. While the latter fear appears to have been justified, the former was not. But the reforms did have an impact: the lending standards of the banks involved changed, making mortgage lending merely a means to the end of packaging securities.

This book provides scholars of international political economy with a strong analytical framework, linking the domestic, national and international realm. It challenges scholars to investigate and consider the factors that led to the decrease in financial regulation since the late 1990s, changing the relationship between Washington and Wall Street. Furthermore, it focuses future attention on the question of American hegemony and its relationship to the financial situation of the American public. In the coming months, as the future of American financial hegemony is being discussed, it remains to be seen whether another country will be able to provide debt markets as attractive as those in America or if an entirely new international currency system, probably opposed by Wall Street and Washington, will be established.

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