Introduction

JUST AS IT IS DIFFICULT TO JUDGE the quality of a used car on the spot, it is difficult to judge the truthfulness of a promise to pay off a mortgage at the time that a loan is made to a borrower: in both cases, sellers/creditors and buyers/borrowers will have incentive to exaggerate the quality of their offer, and only time will reveal whether, and the extent to which, they are lying or dealing honestly. These scenarios spotlight three key facts: information is scarce, valuable, and subject to manipulation. These truths color all kinds of economic transactions, but they are particularly challenging when the accuracy of information can be assessed only after a transaction is completed—as is the case when credit is involved. To further complicate matters, information, however accurate and pertinent at the time of collection, may be irrelevant for future dealings. Credit and finance are particularly vulnerable on this account; borrowers may default because of conditions completely outside their control; financial assets may lose value because other assets, however remotely connected to them, lose value. And, the possibilities go on . . . .

Recognizing the scarcity and unreliability of information gives rise to our understanding of money, credit, and banking, whereby the central problems faced by financial providers are those of matching the demand for, and supply of, financing—of coordinating flows of financial resources and thus of decreasing opportunities for malfeasance while managing the potential effects of uncertainty. In this view, financial providers who specialize in assessing the credibility of a borrower's promises and who successfully hedge against future uncertainty allocate their resources better

than do those who ignore problems associated with these gray areas. Success is measured in terms of how these providers alleviate potential asymmetries in information between people with viable business plans but no capital, and people with capital but no intent to invest it actively. By the same token, the value of credit and financial instruments is a reflection of the value of some underlying asset; the longer the duration of a financial relationship, the higher the risk. But financial instruments make this risk more manageable and, within the limits of probability, more predictable. In short, banks and other providers of financial services use different kinds of financial tools to match the credit needs of their customers. The art of banking, and more generally of finance, is the art of developing ways to make this match as effectively as possible, which leads to financial markets that run smoothly and efficiently.

However plausible this account of finance may seem, judging money, credit, and banks in terms of how financial actors approximate their views of markets, means adopting the "categories of practice" (to use a term that Brubaker and Cooper [2000] elaborate from Pierre Bourdieu) that financial actors use—the justifications that they themselves employ to rationalize and legitimize their behavior. This is particularly the case when it comes to economic theories, which, in spite of a long tradition of empirical work in economic history, tend to focus on free, competitive, and frictionless markets at the expense of appreciating the social nature of each and the importance of money in particular (Smithin 1994, 2000; Davidson 2002: 78). As a result, it is a trademark of economic approaches that credit and finance are judged in terms of how they approximate, or differ from, idealized markets, as opposed to being valued on their own terms. This is also the case for behavioral approaches to finance, which tend to emphasize flaws in the individual rationality of economic actors to explain why finance does not live up to the ideal of efficiency. Sociological theories, by contrast, are quick to accept a division of intellectual labor whereby the character of money, banking, and credit is considered too "economic," and thus by definition outside the scope of sociological analysis (Collins 1979a). But the outcome is the same: sociologists, quite paradoxically, tend to idealize money and markets and, with few notable exceptions, pay little attention to financial processes.

Now that money, credit, and banking are at the center of several intellectual efforts, aimed at rethinking the nature of the capitalist process, in literatures as disparate as the comparative analysis of capitalist systems

(Hall and Soskice 2001); the economic history of financial systems (Allen and Gale 2000; Verdier 2003); the sociology of banking (Stearns and Allan 1996; Carruthers 2005, 2011); and the sociology of money (Ingham 2004), the legacy of inattention to the social foundations of money, credit, and banking is especially troubling. This book is an attempt to interrogate some of the fundamental premises that underlie these conversations.

Coordination in finance, I submit, is indeed a problem—but it is not a problem of devising efficient solutions that ensure optimal collective outcomes, as information-based approaches imply. It is rather a problem of organizing powerful coalitions in "the financial field" to monopolize the appropriation of collective benefits. The financial field is an arena of conflict, where competing financial elites organize in order to prevail, not to facilitate external economic processes. The contours of this conflict can be delineated only if one (1) understands the centrality of conflict to capitalism in general; and (2) spells out what shape this conflict takes, what conflict entails for the financial field, and how "categories of practices" (fungible money, banks as institutions of intermediation, creditworthiness as an objective trait, and so forth) are mobilized in this struggle. In this introduction, I argue that a sociology of financial instruments constitutes the foundation on which to construct a more general sociology of finance. Attention to financial instruments allows us to understand the centrality of conflict in capitalism generally, and finance in particular. I will also discuss the relationship between democracy and financial conflict, introducing the empirical material on which this book will be based.

From Money to Financial Instruments

Discussions of finance tend to take an idealized view of money: they argue, specifically, that the purpose of finance is to make qualitatively different assets commensurable, both with other assets and with comparable assets over time. Financial instruments are the medium in which this process of evaluation takes place: they assign assets a quantitative value, and devise rules that recalibrate it over time (Bryan and Rafferty 2007). Exchanges mediated by financial instruments constitute *forward markets* where "the buyer and seller enter into a contractual agreement today for payment and delivery at specific dates in the future" (Davidson 2002: 71). The problem with financial contracts is that they often lead to systematic mispricings—such as financial bubbles—in which the finan-

cial assessment of the value of an asset turns out to be plain wrong, or off the predicted value in ways large enough to make payment of the liability impossible (Minsky 1986; see Zuckerman 2012 for a review). The effectiveness of financial instruments is thus judged in terms of how well they reflect intrinsic value.

But, for the moment, let us bracket off the issue of what the financial instrument represents—or of how well it represents value—and let us concentrate on what holders of financial instruments can do with them. The properties of financial instruments can be captured by two general dimensions, which I will call *exclusivity* and *financial control*:

1. *Exclusivity:* This is the degree to which possession of the instrument is restricted. As a result, the circuit in which the instrument is issued, owned, and exchanged can be more or less exclusive. That is, membership in the circuit may be restricted to few elite players or, at the other extreme, open to all. Hedge funds and exclusive cards are two examples.

2. *Financial Control:* This is the degree to which the holder of the instrument has control over its value. On one end, when control is highest, the holder can shape markets for the instrument so as to increase (or decrease) its value. On the other end, when control is lowest, the holder of the instrument cannot affect the price of the instrument. For instance, the holder of food stamps has little control over their value; the manager of a hedge fund, by contrast, has, to the extent that she is successful in her portfolio strategies, tight control over its value.

Let us discuss this latter example, the hedge fund, at greater length. A hedge fund is an unregulated investment vehicle that is high both in exclusivity and in financial control. The first claim is easy to defend: a hedge fund manages the wealth of carefully selected, extremely rich individuals; in order to take advantage of the U.S. tax code, the assets each investor puts at the fund's disposal have to exceed $5 million (Fung and Hsieh 1999). Normally, the fund is privately controlled: it takes the legal status of a limited partnership; it often locks the funds of its investors in for a given period of time—formally to avoid liquidity mismatches and thus gain the ability to concentrate on long-term investments (Das 2005), but symbolically to create the conditions for the development of a long-term bond between managers and investors.

How do hedge funds achieve financial control? For one, the assets in which hedge funds invest are traded in financial markets, of course, but

TABLE 0.1
Two Dimensions of Financial Conflict

	Degree of Financial Control	
	(More)	(Less)
Exclusivity		
(More)	Hedge Funds	Exclusive Credit Cards
(Less)	Relationship Banking	Mortgage-Backed Securities

the ownership of the fund itself is usually not (although funds of funds are possible too). The managers of the fund have *discretionary control* over their investment strategies, though they are subject to the informal pressure that investors put on them, and to rules regulating when the funds invested must be released (Lewis 2010). What give hedge fund managers financial control are alliances with academic theorists and other financial providers, and access to financial technologies through which they get to shape markets (MacKenzie and Millo 2003). Their financial control also depends on carefully managing impressions, and first and foremost, orchestrating social experiences of financial control for one's investors. This, most importantly, includes a claim to membership in a "smart money" elite (Mallaby 2010). These experiences, to be sure, are validated only to the extent that the fund earns its investors high rates of return; but, arguably, it is precisely because managers of the fund have access to information that others ignore (a practice that often spills into insider trading), that their fund thrives. The fact that their financial control can only be temporary tells us something about the social process whereby hedge funds succeed: once the investment strategies of a successful hedge fund are copied by a multiplicity of actors, the hedge fund loses its competitive edge and may ultimately collapse (MacKenzie 2003). A hedge fund can best be thought of as a contemporary illustration of Weber's "closed status group": the exclusivity of its membership and the idiosyncrasy of its practices are key ingredients to its continued success.

Now compare the exclusivity and financial control of a hedge fund to those of a financial instrument, such as a credit line issued to a selected clientele. An exclusive credit card has restricted membership—the most exclusive ones are, in fact, by invitation only (Moyer 2007). In exchange for a hefty fee, an exclusive credit card grants the holder several perks, usually related to travel assistance and entertainment. The exclusive credit card,

however, gives the holder no control over exchanges in financial markets. In fact, it is often celebrities who are invited to apply: their desirable social characteristics (reputation, fame, public exposure) are ideal ingredients for the creation of a prestigious circuit. By the same token, possession of an exclusive credit card is less prestigious than investing in a hedge fund, because situations in which the possession of an exclusive card commands prestige are, in essence, consumption experiences. Such experiences are crucial to the constitution of status groups sharing a similar lifestyle, as Weber recognized, but only outside of financial markets, in which they command no prestige. A credit card is thus high in exclusivity but low in control.

A mortgage-backed security is an example of an instrument that is low in both exclusivity and financial control. In some unexpected ways, the MBS has features similar to those of a credit card, to the extent that it affords little control in financial markets to its possessor, let alone its originator. The security conveys some degree of control over a consumption experience, associated with the purchase of a house that it facilitates. But, much like credit card debt, a mortgage-backed security is exchanged as a commodity in financial markets, and so the originator of the security quickly loses any control over it. Of course, a mortgage-backed security is less exclusive than an elite credit card, although (much like a credit card) a mortgage is given a rating that determines how favorable its terms will be to the debtor (Rajan et al. 2008).

Finally, consider an ongoing credit relationship between a bank and a customer. It is discriminating to the extent that it depends on whether the customer meets the criteria of creditworthiness set by the bank, often buttressed by collateral (Boot 2000). But because of informational asymmetries—the fact, in particular, that a borrower will always know more about her financial situation than will a banker—relationship banking affords more opportunities of financial control to the borrower than an impersonal credit relationship would. The banker and the customer become committed to each other over time, developing a relationship that may then go on to facilitate the customer in securing more resources on more advantageous terms in financial markets as well (Diamond 1984; Calomiris 1995). So even though relationship banking can be less exclusive than selective, elite financial relations such as the possession of an exclusive credit card (depending, of course, on the prestige of the bank itself [Podolny 1993]), it is an important marker of the financial status of the borrower:

the relationship is supposed to continue over time, allowing banks to act as monitors and guarantors of the financial situation of the borrower, and allowing the borrower in turn to benefit from the prestige of being associated with the bank.

These distinctions among financial instruments on the two dimensions of exclusivity and financial control bring into relief two counterintuitive points. First, the *prestige* of a financial instrument often increases as the instrument loses its connection to underlying, physical assets—in clear contrast to "real" economic analysis which would have us believe that the most desirable assets are those that are valued closely to their "intrinsic" value defined by a material good. Thus, investing in a hedge fund is more prestigious than possessing an exclusive credit card or issuing a mortgage-backed security, let alone getting a mortgage, because a hedge fund gives the investor access to prestigious networks of financial interaction in ways that "lesser" financial instruments do not. Similarly, relationship banking is more prestigious than a one-time financial transaction because it may open up opportunities for further financial transactions, whereas a one-time debt only finances an expenditure. Moving on to the second point, the prestige of having access to instruments that are denied to others, what one might call the prestige of exclusion, allows financial elites to make long-term alliances with each other. But these alliances, depending on the exclusivity of the relationship, produce mutual obligations and mutual commitments that extend into the future, locking different elites to each other. Networks of favors and informal relations take the place of market-based exchanges denominated in prices; confidence in the perpetuation of those relationships builds up. As in Randall Collins's theory of interaction rituals, financial instruments serve as symbolic currencies loaded with the solidarity and the social honor of membership that allow individuals to forge "interaction ritual chains" with those who are like them (Collins 2004). Much like the men of early-twentieth-century America analyzed by Viviana Zelizer (1994), who earmarked a significant proportion of their earnings to spend it on rituals of sociability with other men (such as drinking together), financial elites earmark the most prestigious financial instruments to "spend" them in financial interactions with other financial elites, in the activity of trading that allows them to be at the center of vibrant financial markets (Collins 2000).

The two dimensions that define financial instruments are therefore obviously interrelated. Exclusivity and financial control feed off each oth-

er, as one way to increase the prestige of a given financial instrument by restricting its possession to only those who possess desirable social characteristics. At one extreme, only members of the circuit become entitled to the holding of the instrument, either by law or through informal means. Thus we learn from Lamoreaux's economic history of antebellum New England (1994) that entrepreneurs and bankers there tended to belong to the same kinship networks, supporting each other's endeavors and sharing each other's gains and losses. A weaker form of exclusivity is obtained by restricting the financial instrument to certain uses, while banning others. We learn, for example, from Abolafia's analysis (1996) of the rise and fall of junk bonds: when Michael Milken started borrowing money with below–investment grade stocks as collateral (leveraged buyouts), he was considered a successful, if idiosyncratic, financier. But when he began using leveraged buyouts to acquire control over established corporations, Milken quickly became a pariah and was eventually defeated through a coordinated effort of established financial elites and regulators.

At the other end of the continuum, possession of the instrument is permitted to outsiders as well, regardless of their social identity. One can tell such a story about any financial instrument that we have over time come to take for granted, such as, for instance, deposit banking or credit cards—financial services that have grown in leaps and bounds over the past fifty years (Guseva and Rona-Tas 2001; Guseva 2008).

The distinction between exclusivity of ownership and degree of financial control, in short, serves to emphasize an aspect of financial instruments that makes them inextricably related to experiences of power and prestige in the context of identifiable, concrete financial communities, rather than to experiences of command over material consumption. Financial instruments, that is, belong to the politics of status groups.[1] This means that financial instruments are instruments of conflict.

Capitalist Conflict

I take it to be one of the main lessons of Marx, Weber, and Schumpeter that capitalism is, by its very nature, a dynamic system; stability can only be temporary and can be ensured only through *organizational* means, which in turn generate conflict. Marx (especially 1921, 1909) emphasized that capitalism is characterized by a sequence of booms and busts, that it thus alternates between periods of prosperity and periods of deprivation,

each caused by contradictory dynamics internal to capitalist development (class struggle), and each having tremendous implications for the distribution of economic and political power. But Marx did not have a theory of money and credit that recognized its autonomous properties and dynamics (Ingham 1984, 1996; Nitzan 1998). So he had little to say about the political aspects of finance. Weber, by contrast, argued that capitalism is based on a complex and fragile balance of power between the political authorities that uphold the law and protect private property, and the capitalist interests that accumulate wealth and power, with alliances between and within those groups giving further dynamism to the system (Weber 1978, 1981). The secret of capitalist dynamism is that it institutionalizes conflict, opening certain markets to competition, and forcing their incumbents to react to the challenge (see, esp., Collins 1980). Yet Weber's theory of money remained underdeveloped.[2] Finally, Schumpeter (1911, 1939, 1962) put the "gale of creative destruction," the relentless process of innovation, at the very foundation of economic development, highlighting the fact that the economic winners of one wave of innovation then struggle to protect their position through economic and social barriers—from patents to industrial espionage; but the innovative process inevitably makes those barriers obsolete over time. Schumpeter, however, like Weber, did not develop a full-fledged theory of money and banking, one that would match his theory of entrepreneurship (Schumpeter 1991; Swedberg 2003).

Marx's focus on the expansion and concentration of the capitalist system; Weber's focus on the political foundations of economic action; and Schumpeter's focus on the political struggle between innovators and the old guard all point to the porosity, instability, and temporary nature of economic boundaries; they also highlight the centrality of conflict to the capitalist economy. But, with the notable exception of Schumpeter, classical theorists did not provide a sustained analysis of the agents and organizations most directly involved in the construction and transgression of economic boundaries.

Schumpeter came close. He most explicitly recognized the centrality of the banking system to capitalism, and proposed the beginnings of a theory of the conflicts that take place within it. But he also held fast to an idealized view of the capitalist process in which bankers played only a functional role—as long as they were properly professionalized into acting as objective allocators of resources and in which financial speculation was nothing but an aberration, brought about by actors with no appro-

priate training in matters financial or with explicitly subversive purposes in mind. Schumpeter did not recognize that, because bankers play an organizational role within capitalism, struggles among bankers cannot result solely from professional or moral failings on the part of individual bankers.

Conflict is a team sport and success depends on mobilization, which is only possible to the extent that team members solve the dilemmas inherent to collective action.[3] Collective action is predicated on, among other things, a common identity through which members of the collectivity develop solidarity with one another—an identity that gives members of the collectivity the criteria by which to judge the actions of others so that members can mobilize to exclude others (see, esp., Tilly 1998; Collins 2000; Zelizer and Tilly 2006). A new sociological consensus is emerging: in order to understand how capitalist economies work, one must first understand the processes and mechanisms whereby groups organize themselves into collective actors with the power to monopolize certain resources and exclude others from exploiting the same opportunities (H. C. White 1981, 1992, 2002). These insights must be incorporated in our theories of finance.[4]

This book develops a conflict-centered perspective in the context of finance to contribute to this emergent discussion. It focuses on how bankers commit to and inhabit common identities as a collective; how bankers control the form, direction, and use of credit through those identities; and finally, how bankers use these identities to exclude other actors from engaging in financial activities. Since bankers, unlike other economic actors, specialize in niche aspects of financial activity, their role in the capitalist process is unique. To be sure, any economic group that benefits from the collective appropriation of a resource will be faced with the challenge of creating commitments to a shared identity, so as to forestall self-interested behavior that might undermine the cohesion of the group. But bankers, I will argue, are specialists in the activity of producing collective financial identities, and linking those to financial instruments, which they then police by restricting their circulation. As each aspect of financial activity generates conformity, so too does it produce resistance and opposition. Bankers are always faced with the pressure to conform to their shared identities; therefore, they are also always faced with the option to rail against existing understandings about how credit should be used and to disregard the call to enforce existing exclusions. Bankers are, in short,

highly vulnerable to formidable collective action dilemmas, and an understanding of banking is not possible without an analysis of the challenges aimed at altering the financial status quo, and of the mechanisms that attenuate such challenges.

In the chapters to come, I develop a parsimonious theoretical continuum that will surely strike some readers as simplistic, but I think that it holds great promise in characterizing the nuanced aspects of banking conflict: on one end is the ideal type of conservative bankers; on the other, the ideal type of what I will call "wildcats." Such a distinction between conservative and wildcat bankers refers to the different logics that drive the allocation, exchange, and use of credit—a distinction first, but only partially, developed by Schumpeter (esp. 1911: 116). The *exclusionary* logic embraced by conservative bankers assigns money in specific forms to clients that these bankers deem reputable—for instance, through revolving lines of credit, or unsecured loans based on the client's credentials, rather than the client's collateral. The *inclusionary* logic embraced by wildcat bankers, by contrast, gives more prestigious kinds of money to less prestigious clients—for instance, by opening access to stock market financing to firms with low credit ratings or inventing instruments that rely on new and widely available forms of collateral, such as long-term employment or home mortgages.

Importantly, this basic opposition between these two ways of doing business translate into two opposite moral claims about capitalism. Wildcats contest the financial elitism of conservative bankers; in turn, they propose a vision of financial democracy. Conservative bankers reject the speculations of the wildcats as irresponsible: only their own (in their eyes) better strategy ensures financial stability. The predominance of either moral claim, I add, serves not only to justify capitalism (Boltanski and Thévenot 2006). These assertions also make possible the appropriation of resources on which the power of financial elites, especially dominant and entrenched ones, depends; alternatively, they justify full-scale attacks on the foundations of the financial status quo. So bankers' claims that they submit to time-honored traditions in their allocation of credit, to standards of prudence in their assessment of the creditworthiness of their customers, and to strict and objective criteria in their distribution of financial resources have all served as much to create professional cohesion and unity of intent among bankers as to regulate transactions with outsiders. Sound banking, in short, is the collective identity that dominant financial

elites develop so as to reproduce their cohesion and bolster their collective power. But depending on the balance of power within banking, as well as in the political system in which banking takes place, claims to sound banking are vulnerable to accusations that they are too strict, traditional, and conservative; too prudent and austere; too restrictive and backward-looking. Since a weakening of the collective commitment to sound banking on the part of conservative bankers, as Schumpeter recognized, would eventually mark their demise, conservative bankers will fight such challenges. Finance, then, is about organized conflict, and the ideologies that are mobilized in the context of conflict are weapons that banking factions mobilize to preserve, or change, the financial status quo.

A number of myths cloud our understanding of finance, as a result of which conservative and wildcat banking have been conceptualized not as conflictual strategies within the financial field but as responses to temporary shocks or disequilibria. The most important of the myths are these: (1) money is fungible and neutral, (2) banks are intermediary institutions, and (3) creditworthiness is an objective assessment. Embracing these myths leads to an understanding of finance wherein financial markets are fully capable of overcoming any challenge, if given sufficient time, and financial inclusion and stability can both be achieved. This book paints a more realistic, historically rooted image of financial action in which the political aspects of money and credit are central: the tradeoffs among these aspects of the system are not only an integral part of the inner dynamic of capitalism but also two structural positions within finance that challenging actors can occupy in the struggle for dominance. Exclusion and stability on the one hand, inclusion and change on the other, are our key ingredients. For this reason, the myths of money as fungible, banks as intermediaries, and creditworthiness as objective should never be our analytical categories. At best, they are *ideological aspects* of the collective identity of sound banking that financial elites have mobilized to justify and then naturalize their strategies. When used as analytical categories, the myths hide the political nature of finance and the sources from which financial incumbents draw power and authority.

When we view the financial field as conflictual, we see that stability is a fragile and temporary political accomplishment, leading to new questions about how changes in the larger structure of political opportunities affect the balance of power within finance. In fact, the collective identities that are organized and mobilized against one another within the finan-

cial field—with sound banking as the ideology that commits bankers to exclusion and stability, and wildcat banking as the ideology that commits them to inclusion and innovation—may clash with the ideologies of political movements outside finance, thus creating the possibility of larger conflicts, as well as the space for potential alliances. Allow me to single out one important structural source of political conflict to illustrate this point: the opposition between the *exclusionary* strategy of conservative bankers and the *inclusive* logic of democratic regimes.

Financial Conflict and Democracy

Important analyses have praised the alleged compatibility of and positive link between capitalism and democratic regimes (classically, North and Weingast 1989; see also Acemoglu and Robinson 2011). In this new-institutionalist perspective, free markets and free institutions go together because of the ability of democratic states to make promises that are credible. When political control is democratic, commitment to contractual obligations is more likely to be protected and guaranteed, and so free markets can thrive.[5]

The problem with this view, of course, as with any view that equates democracy and capitalist markets, is that capitalism as it actually exists is not reducible to free markets, a point clearly recognized by both Weber and Schumpeter; finance in particular is a realm not of intermediation and efficient allocation of resources, but of an organized push and pull to control the shape, direction, and intensity of financial flows. Financial actors actively resist the encroachment of competition on the niches they monopolize, so they experience free capitalist markets as threats to their power, and resist them accordingly, rather than accepting them as normal processes to which they must adapt. But this also means that demands for freer markets are not demands for more accountable systems that better guarantee private property, as the neoinstitutionalists would say. Rather, they are attacks against entrenched positions, aimed at corroding those old networks and at creating the space for new systems with a different architecture of exclusion. To analyze the effects of democracy on capitalism thus means to account for the social processes that threaten the boundaries that incumbents erect in order to protect their market position.

For analytical purposes, democratic regimes should provide a context in which conflicts between conservative and wildcat bankers can be

more clearly observed. In authoritarian settings, bankers will not see challenge from outsiders once they gain political privileges. But in democratic systems, elected political officials are often attentive to demands for financial inclusion: they may even find it strategically convenient to encourage financial speculation, using credit as a way to win political favors from the constituencies that stand to benefit from it. In this way democratic regimes can be difficult environments for conservative bankers, as they provide wildcat bankers with the means (such as public debt), the space, and the legitimacy to spread the use of credit to new constituencies.

It can be expected that conservative bankers will not passively succumb to these wildcat challenges. Historically, ideas about the inherently technical and nonpolitical nature of money and creditworthiness, and the importance of professional autonomy from political power in the banking business, arose precisely to limit democratic challenges to banking authority (Ingham 1984 classically shows this for the British case). But in democracies, such arguments tend to be insufficient. How, then, will conservative bankers attempt to maintain authority in regimes in which the right to set boundaries around credit can be contested?

The Empirical Cases and Their Theoretical Relevance

How conservative bankers bolster their authority to draw exclusive boundaries around the allocation of credit is an empirical question at the core of our exploration. One possible analytical strategy to characterize the internal dynamics of finance, and tease out how external processes affect them, would be to select several country-level case studies, with sufficient variation in their degree of democratization. Guiding questions for such a strategy would be: is banking more (or less) conservative in democratic or authoritarian settings? Are wildcat speculators more (or less) prevalent in democracies or dictatorships? Is the banking system as a whole more (or less) autonomous from politics in democracies or in authoritarian regimes? Several works in comparative-historical sociology follow this Millsian approach (Skocpol and Somers 1980; Mahoney and Rueschemeyer 2003).

In the context of this study, however, such an approach would not be entirely satisfactory because of the inevitable loss of depth it would entail. My intention, in fact, is not to show that macropolitical variables, such as democratization, affect national financial dynamics, a proposition

for which large literatures already exist (see, for instance, Sylla, Tilly, and Tortella 1999). Rather, the aim is to investigate *how* financial status groups organize in democratic settings to preserve, or change, the distribution of financial advantages; what kinds of claims incumbents make in order to counter wildcat challenges; and what effects such conflicts have on the power and autonomy of the financial field as a whole. To borrow an explanation from Michael Wievorka (Ragin and Becker 1992: 160), I look for cases that offer the "opportunity for relating facts and concepts, reality and hypotheses," cases that "draw [their] unity not from the theoretical tools used to analyze [them], but from the way [they] take shape, namely as social or historical fact[s] combining all sorts of elements into a set comprising social roles, an institution, [etc.]"

I have selected two cases—the United States (ca. 1800–1913) and Italy (ca. 1860–1913) that afford such an opportunity in a particularly useful fashion. While there is no striking, macrosocial similarity between the two cases, in both countries, during this period, the openness of democratic regimes increased, affecting the local organization of finance in dramatic ways. In both countries the local level had been the arena in which financial status groups had consolidated their power, but increased democratic openness led to powerful demands for financial expansion. In the U.S. case, these demands also originated at the local level where financial power resided; in the Italian case, by contrast, these calls for expansion came from above. Therefore, these two instances allow us to view top-down and bottom-up shifts side by side.

More specifically, *decentralized political authority*—the limited capacity of the federal government in the United States, and the corresponding strength of subnational authorities (in particular, state governments)—set the stage for change. As political movements emerged to challenge the privileges of elites, wildcats began threatening sound bankers at the local level, where they could rally state governments around projects for liberalization in the name of financial democracy. Initially (in the antebellum period), conservative bankers fought to maintain a privileged relationship with state legislatures, but they lost that battle to the Jacksonians in what came to be known as Andrew Jackson's "war on banks," which prepared the ground for the passing of general incorporation laws. After these liberalizing laws were passed, legislative approval was no longer needed to open a bank. So, in the postbellum period, bankers abandoned the strategy of seeking formal political privileges, cultivating instead an

image of banking and finance as autonomous from politics. Ostensibly nonpolitical criteria for the allocation of credit became the battleground on which financial conflict occurred, as conservative bankers sought to regain control by couching sound banking in ideological terms (a myth of creditworthiness) emphasizing middle-class values of reputation, honesty, and moral probity (B. H. Mann 2002; Olegario 2006). In contrast with the well-developed local administrations of the United States, local political authorities in Italy had little capacity (Sabetti 2000; Ziblatt 2006). After a chaotic process of unification, the central state stepped in and forced conservative bankers to deal with a new, powerful actor. The state's own openness to new social forces invested in financial expansion called existing boundaries of the allocation of credit into question. Unlike U.S. bankers who, in the face of strong sectional opposition to centralized authority, capitalized on their allegedly nonpolitical role, Italian bankers embraced this politicization of credit by subordinating themselves to the project of state-building. Some banking factions, in conflict with their more powerful counterparts, pushed this identification further, and began arguing that the fate of banking was connected to the fate of the nation. In the wake of their success, creditworthiness came to be understood in terms of one's loyalty to the nation; through a national myth of creditworthiness, bankers would draw the boundary between those deserving of credit, and those who should be denied access, along nationalist terms.

At the minimum, then, this book questions the existence of any "elective affinity" between open financial markets and democratic regimes, for it treats the former as causes of instability to which conservative bankers respond by drawing on the political resources that democratic regimes make available to them. The shape of their strategy, in turn, is affected by the level from which wildcats launch their attack on sound banking: local challenges will be dealt with differently than challenges coming from above. To put it slightly differently, my comparative design exploits variation in the two cases, between the levels that Diana Vaughan terms "interactional" and "contextual" (Ragin and Becker 1992: 179). "Interactional" dynamics characterize how groups coalesce around identities; "contextual" dynamics refer to the means they have at their disposal to reproduce those identities. U.S. conservative bankers, I submit, were not subject to the same kind of "contextual" constraints on their "interactional" activities that Italian conservative bankers, in the face of a centralized state, were forced to deal with. Analysts who understand credit to

work best when it is regulated by free market forces, rather than political considerations, would consider the Italian case an aberration and would celebrate the U.S. case as a better exemplar of proper relations between the economy, credit markets, and politics. As I discuss in the conclusion, the aim of the study is to demonstrate how finance is dependent on the creation of boundaries: conservative and wildcat bankers fight about where such boundaries should be drawn, with wildcats often couching their demands in terms of inclusion, and with the political system in which finance takes place giving those boundaries more specific contents.

My intention is not to judge the appropriateness of those boundaries. But, by looking at how different levels of the social and political structure affected the cohesion of financial elites in Italy and the United States, I am able to specify a more dynamic link between democracy and finance than previous theories have, as well as foreground the effect of financial conflict on the formation of financial systems.

Plan of the Book

In the first chapter, I lay the foundations for the project by delineating in more detail the myths of money, credit, and creditworthiness. The purpose of the discussion is to show that the three are always contested, with certain bankers striving to reinforce the boundaries drawn around each phenomenon, while other bankers strive to transgress those boundaries. The nature of finance in the capitalist process is that of organized conflict between inclusion and exclusion, in which the myths of fungible money, of banks as institutions of intermediation, and of creditworthiness as objective assessment are mobilized as ideological instruments for dominance.

Building on the distinction between money as a means of personal enrichment and money as a token of membership in an economic community, a distinction proposed by Simmel, the second chapter argues that bankers mediate the tension between private uses of money and the collective identities sustained by money using specific financial instruments. Bankers, however, can use both conservative and wildcat strategies to manage and exploit this tension: they can emphasize the need to keep access to and trade of the instrument restricted to certain uses and not others; or they can emphasize the need to keep money fungible and generalized, thus transgressing the boundaries that the economic community builds

around the circulation of the instrument. The chapter argues that, once a status quo is established within the financial field, financial activities originating outside of it, in particular the financial activities of the state, must also be mediated so that the status quo will be reproduced. The chapter maps out the complex relationship between conservative bankers and political elites that allows the former to consolidate and reproduce the principles of sound banking through which they dominate the financial field. The chapter also hypothesizes that democratic regimes are particularly prone to wildcat challenges, because of their tendency to issue debt to finance political projects over which conservative bankers have no control, and to politicize the boundaries built around credit by making the collective identities whose management the conservative bankers strive to monopolize open to political contestation.

The second chapter concludes the theoretical part of the book, and the remaining four chapters are dedicated to the empirical analyses of the two cases, Italy and the United States. The questions that run through these chapters include: what shape do the myths of fungible money, banking as intermediation, and creditworthiness as objective assessment take in different social and political contexts? How are the myths mobilized to justify inclusions and exclusions? Where are the boundaries drawn between those worthy and those unworthy of credit?

In Chapter Three, I begin by discussing the myth of creditworthiness in the nineteenth-century United States. Creditworthiness was thought to be a character trait of individual borrowers—a conceptualization that characterized the British credit system as well and that has since become accepted as self-evident. Why would a borrower that did not display honesty, capacity for hard work, and a solid and reliable reputation be entrusted with money? I argue, however, that this is too narrow a basis for our understanding of the organization of the financial field. Rather, we must begin with the realization that the use of reputation as an indicator of creditworthiness originated in mercantile networks, where concerns about the ability of borrowers to pay were particularly pressing. But the financial field included actors whose business did not entail lending to individuals—actors who, for instance, engaged in developmental projects controlled by state legislatures and who specialized in corporate restructuring and consolidation (Sklar 1987; Fligstein 1990). Justification of the business of banking as the activity of assessing reputations remained, nonetheless, widespread: embedded in what contemporary economists

call the "real bills" doctrine, we see the link between reputation and credit as the rallying point for a powerful reform movement that was eventually determinant in the passing of the Federal Reserve Act (Wiebe 1962; Livingston 1986; Broz 1997).

This focus on reputation as the precondition of credit, I argue, became widespread in the context of the prolonged power struggle that, throughout the nineteenth century, characterized U.S. finance. The power to issue money and credit was intensely contested in the antebellum United States; this was particularly the case in the Northern states, where banks were chartered and taxed by state legislatures, and where their relationship with political power was visible and open for contestation. In the South, by contrast, where local politics was not democratic because of the institution of slavery, banks were not taxed, and as a consequence, their privileged relationship with political elites was not open to contestation. As a result, the South had fewer banks, fewer banknotes in circulation, and fewer wildcats. The chapter argues that Northern conservative bankers appropriated the myth of creditworthiness as a character trait of individual borrowers to commit both other bankers and their borrowers to *depoliticized* collective identities, and so neutralize the challenge to sound banking posed by wildcat bankers in the name of financial democracy.

In the Jacksonian period, wildcat bankers succeeded in weakening their conservative counterparts, as they subjected the financial field to general incorporation laws, severing the political link between banks and state legislatures. This momentary win is the subject of Chapter Four. We will see that the National Banking Laws of the Civil War simply applied similarly liberal banking principles at the federal level, thus reinforcing the wildcat dynamic. Yet, because of the continued conflict over the nature of money, and the continued conflict over the power of banks, throughout the postbellum period, conservative bankers once again invested in the myth of creditworthiness to legitimize their credit practices. In the decentralized, (relatively) democratic political context of the postbellum United States, the conservative narrative about concerns with reputation became of crucial importance to maintaining control over the creation and distribution of financial resources among elites.

Chapter Five discusses how the weak capacity of local governments, coupled with the centralizing thrust of the state, affected the development of banking in the Italian case. Unlike U.S. conflicts, which were based on reputation and creditworthiness, I argue that Italian banking

conflicts referred primarily to the relationship between centralized political power and credit. Conservative bankers, because they could not rely on strong local governments that would protect their privileges and status, vied instead to gain the support of central political elites. Since Italian political elites viewed the spread of credit as a project of political and social development, and they entrusted the credit system with the diffusion of new collective identities binding citizens to the state, wildcat bankers had an in: they could attack conservative bankers on the basis initially of regional identity, and then of nationalism. The chapter reviews the early debates among political and financial elites in which this defense was first articulated.

Chapter Six focuses on the later part of this debate, between 1890—when wildcat challenges to conservative banking at the local level led to a widespread financial crisis—and World War I. By that time, a central bank was firmly in control of the finances of the state and engaged in a struggle with the "universal banks" of the North, until they were linked to the development of the heavy industrial sector but increasingly viewed as agents of international finance. The chapter shows how the myth of creditworthiness became anchored to nationalism. Given that the U.S. articulation is the one that gained more legitimacy in the contemporary literature, so that creditworthiness is now mostly understood as the trait of the individual borrower, the chapter deals with the question as to whether there is something inherently specific to the Italian political environment of the time that makes the myth of creditworthiness as a display of national loyalty a matter of limited historical and sociological interest. But I submit that the Italian case is in fact more useful than the U.S. case in delineating the contours of creditworthiness precisely because it highlights the collective basis upon which it is articulated. The goal of the chapter is to show that, within the political context in which the Italian banking system was embedded, the myth of creditworthiness as the display of nationalist loyalty served to build a common language of communication for bankers—and that while the content of those discussions is historically specific, its nature is not. Even contemporary articulations of creditworthiness as a trait of individual character are ways of committing bankers to common understandings of money and credit so as to stabilize broader conflicts.

We conclude with Chapter Seven, which briefly returns to the ways that my theory of finance as organized conflict relates to approaches that

emphasize scarce information as the reason for the existence of banks. The chapter discusses how the theory extends Schumpeter's insights on the relationship between bankers and entrepreneurs. It summarizes my findings from the comparison between the United States and Italy, emphasizing the role of the politics of the budget and of political culture. It concludes by sharpening my typology of wildcat and conservative bankers, and discussing how it helps us understand more contemporary financial events, such as the arguably risky rise of financial innovation over the past thirty years.