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Some Neglected Aspects of the Global Crisis

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1 Introduction

The aim of this paper is to analyze some key aspects of the global economic/financial crisis which are either neglected or not sufficiently investigated in most scientific and media accounts in a sociological perspective. I focus on the United States – since the crisis started in the core country of contemporary market capitalism – and I discuss two basic aspects:

a) the cognitive framework which deeply influenced the key decisions taken by both institutional and private actors, both in the market and in the political arena,

b) the mechanisms of pressure politics and the aims and strategies of key economic interest groups.

More specifically, I start by discussing the cultural orientation prevailing in the US corporate, government and intellectual elites, through the analysis of essays, statements and documents. This cognitive framework – developed in first-ranking universities in the US and abroad as an instance of rigorous scientific method – has become mainstream economics. Its core is the neoliberal conception of the self-regulating market, according to which markets are capable of restoring their equilibrium whenever either rigorously exogenous factors or statistically unlikely events create imbalances. Its other major cognitive elements – alongside the theory of the market as a spontaneous order – are the predominance of the virtual economy over the real economy, a conception of money that stresses its symbolic component over its meaning as a measure of value, and a changing attitude toward risk and trust.

In order to criticize the view that the financial crisis is simply the outcome of wrong predictions and unforeseeable events, I then reconstruct the goals, resources and strategies of processes of political lobbying in the US Congress and administration and show how they were able to influence key decisions concerning deregulation policy both by weakening the existing systems of institutional controls and by preventing the passing of new rules for the new financial products.

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A better knowledge of these aspects of the crisis can help to identify key obstacles in the implementation of policies aimed at enforcing new forms of regulation of global markets both at the national and supranational levels.

2 A structural crisis

Books, essays and articles on the causes, dynamics and impacts of the global financial crisis and the related economic recession are numerous and increasing in number. Widespread agreement exists on the sequence of events leading to the crisis (Stiglitz, 2008; European Parliament, 2009; United Nations, 2009; US Congressional Research Service, 2009; US Government, 2010): from the housing bubble and the sub-prime crisis in the US market to the risk of default and the federal rescue – with large amounts of public money – of the two giants of US housing credit, Fannie Mae and Freddie Mac, and the biggest US insurance company, AIG; from the crisis of the five largest American investment banks at the core of global finance (the default of Lehman Brothers and the acquisition or transformation of the others) to the financial panic caused by the vast proliferation of the toxic products of shadow finance that fostered a generalized crisis of confidence in banks, firms and families, thus contributing to the recession of the real economy.

One cannot find however similar agreement about the interpretation of the nature of the crisis (structure or conjuncture), its causes and dynamics, its economic, social and political impacts, the responsibilities of private and public actors, or their responses and exit strategies (Cooper, 2008; Morris, 2008; Soros, 2008; Read, 2009; Woods, 2009; Paulson, 2010; Roncaglia, 2010).

Given the diversity of interpretations of the crisis, I need to place myself on the map with a few brief remarks. I consider the global financial/economic crisis a structural crisis, the first major crisis of contemporary globalization, which highlights key aspects of a thirty-year-long phase of world capitalism (structural interdependence, unregulated growth of financial markets, inequalities and disequilibria at the world level). I argue that, in order to be understood, it must be framed in a broader context and in a longer time perspective. The crisis exploded at the core of global capitalism, in contrast to previous regional crises such as the Asian, Mexican and Russian crises of the 1990s. The immediate cause was the US real estate/sub-primes bubble, which provoked a chain reaction affecting the widely extended and highly complex system of related financial products (mortgage back securities, collateralized debt obligations, credit default swaps and other types of hedge funds). But the crisis developed in a context of great expansion of wealth and liquidity and growing financial interdependence at the world level that has more distant causes: the new economic policies of privatization and deregulation starting in the early 1980s; the expansive monetary policy of the Federal Reserve and other central banks, and excessive financial expansion (the leverage buy-out boom, the explosion of hedge funds mostly active in the derivatives sector). The continuous expansion of credit, the unchallenged rise of shadow finance, the less and less cautious investors' attitude toward risk, the retreat of regulatory agencies, the maximization of share prices, and the windfall gains of chief executives and financial speculators were all phenomena contributing to a series of financial crises that monetary authorities seemed, at first, able to manage. But the crisis could not be managed – as the previous "new economy bubble" – through traditional monetary policy measures, and required massive injections of public money to save large financial firms from default, both in the US and in Europe. The crisis, therefore, has structural roots, and it has propagated very fast to the whole world.

The crisis is the traumatic expression of the contradictions of globalization, first of all the contradiction between increasing economic, financial and technological interdependence, on the one hand, and continuing political fragmentation, on the other, which highlights the lack of effective global governance (Martinelli, 2003, 2005). In this sense, we can define the crisis as systemic, specifying that this term does not imply the collapse of global capitalism. In fact, structural crises are the way in which capitalism continuously transforms itself. The classics of social sciences, from Adam Smith to Karl Marx, from Max Weber to Karl Polanyi, from Joseph Schumpeter to John Maynard Keynes, have all argued, although in different ways, that capitalism is inherently contradictory and transforms itself periodically through processes of creative destruction. Contrary to both the theorists of the market as spontaneous order, on the one side, and the theorists of the inevitable collapse of capitalism, on the other, crises are endemic in capitalist development but do not destroy it. This crisis is not the end of globalized capitalism, but it marks the advent of a new phase, after the previous two thirty-year phases (first, "*les trente glorieuses*" from the Second World War to the early 1970s, then global capitalism from the late 1970s to the present). The crisis does not imply a negative evaluation of the whole process of globalization either. Globalization per se can have both positive and negative consequences. It is the coordination of state economic and social policies and the implementation of rules at the global level that can make the difference.

The present crisis is the expression of the contradictions of world market capitalism. Global finance has developed in new unregulated forms and at unprecedented rate; the erosion of sovereignty has made national governments' controls ineffective, and no new system of international regulation and global governance has superseded them. Major disequilibria have arisen between creditor countries with fast-growing, export-led economies, high rates of savings, huge balance of trade surpluses and reserves in dollars such as China, on the one hand, and debtor countries with finance-dominated, mass consumption economies, high levels of public and private indebtedness, and huge balance of trade deficits such as the United States. The growth of global wealth has dramatically reduced poverty in large countries such as China and India, but has fostered new economic and social inequalities among and within national societies, between developed and developing countries, and between privileged or protected social groups and marginalized social groups. Moreover, other tensions constantly arise from the high fluctuations in energy and raw materials prices stirred by the growth of demand in the fast developing economies. The monetary crisis developed in such a context.

3 The cognitive framework

Given its structural character, the crisis must be interpreted in a long-term view (the last three decades). The crisis shows the problematic nature of a particular variety of capitalism – the market-driven model – which is based on the notion of the market as a spontaneous order that is capable of self-regulation. Since the 1970s, world capitalism has changed, not in the sense of transforming its core elements and its *Weltanschauung* (the central role of the market and the business firm, the driving force of science, technology and innovation, and self-transformation through periodic endogenous crises and processes of destructive creation), but in the sense that it has globalized to an unprecedented degree by virtue of the ICT revolution and the collapse of its major antagonist mode of economic organization (the USSR state planning model). In this unprecedented process of globalization, one of the historical variants of capitalism – the Anglo-Saxon market-driven variant – has become hegemonic.

The change of the 1970s can be explained in terms of structural economic variables (technological innovation, growing competitiveness, an expansionist monetary policy, the availability of an increasing amount of money looking for profitable investment, changes in the world trade); all these factors joined in and contributed to corroding the oligopolistic assets of the previous phase. But the assault from below, from the new aggressive entrepreneurial "animal spirits" would not have been so successful without a dramatic change from above, in the cultural climate and the government economic policies of developed countries. The stagflation of the 1970s – which was generated among other things, by high increases in the cost of energy and raw materials and by the rise of wages – provoked a shift in the perspective of decision-makers from the problems of aggregate demand (and the related Keynesian economic policy) to problems in the supply of factors of production (and the related supply-side economic policy). First, the Reagan administration in the United States and the Thatcher government in the United Kingdom and, subsequently, the governments of several other developed and developing countries adopted the supply-side economic policies of extensive deregulation, privatization, tax cuts and expansive monetary policy.

The joint action of these economic policies and the great opportunities opened for product and process innovation and for market growth by ICT through the construction of networks of global interdependence fostered a staggering growth of GDP in several emerging countries (first of all, China, India and Brazil) as well as the continuing growth of developed countries; but, on the other hand, it caused the overexpansion of finance vis-à-vis the real economy (with an excess of wealth looking for increasingly higher financial returns), the predominance of finance and short-termism in the conduct of the corporation, the growth of inequalities among and within national societies, and serious threats to environmental and social sustainability.

The other major variants of capitalism (the continental European "social market economy" model and the Japanese "neo-paternalistic" model) have moved in the direction of the hegemonic market-driven one on the assumption that this was the most competitive, and a similar path was followed by China – the fastest growing of the emerging countries and the most relevant instance of Asian authoritarian capitalism.

In order to explain why the market-driven variant of capitalism became hegemonic, it is important to define the cognitive framework that legitimized it, since a key feature of the global financial crisis is the cultural orientation prevailing in the financial, corporate, government, and intellectual elites. The core of this cognitive framework is the neo-liberal conception of the self-regulating market, according to which markets are always capable of restoring their equilibrium whenever either rigorously exogenous factors or statistically unlikely events create imbalances. Mainstream economic theory – developed in the leading universities in the US and abroad – mistook a phase (the last three decades) in economic development for a normal course of capitalism and upheld deregulation of financial markets as the best policy and explosive growth of global finance as the main road to growth (Rajan and Zingales, 2003). A specific formulation of this paradigm has been Markowitz's theory of self-regulating financial markets, which essentially rested on one central premise: the enlightened self-interest of owners and managers of financial institutions would lead them to maintain a sufficient buffer against insolvency by actively monitoring their firms' capital and risk position. Since the 1950s – when it was originally formulated – this theory has seemed incontestable, but the present financial crisis has falsified it, as even true believers in that theory such as Alan Greenspan have recognized.

This cognitive framework was the basis of the "Washington consensus", i.e. the package of reforms suggested by the IMF and the World Bank to policy-makers, which urged privatization, deregulation, opening to foreign direct investments, import liberalization, market-determined interest rates and exchange rates, accompanied by the reduction of public spending, fiscal discipline and moderate and diffuse taxation.

Other key cognitive elements of this cultural orientation – alongside the theory of the market as a spontaneous order – have been the predominance of the virtual economy over the real economy and a conception of money that overstresses its symbolic component. Financial domination developed very fast: global financial assets rose dramatically; a growing number of investors bought sophisticated financial products that were more and more separated from the real economy, seeking higher returns and underestimating higher risks (exchange-traded derivative financial instruments rose from US$ 12.047 billion in 1997 to US$ 82.817 billion in the second quarter of 2008 (IMF, 2009, 180)). Most chief executives adopted a model of corporate control that conceives the firm in purely financial terms, according to which each productive unit is evaluated according to its capacity to generate short-term shareholders' value, while long-term investments are neglected (Fligstein, 1990).

The symbolic component of money as an abstract representational system has obscured the other basic meaning of money as a measure of value based on the production and exchange of concrete goods and services. As a result, monetary symbols have become the objects of abstract exchanges taking place nowhere else than in their virtual world. Moreover, information – which should be a basic ingredient of rational competitive market behavior – is missing. The uncertainty that spreads in financial markets during the crisis has in fact been fostered by the lack of information about the nature and volume of the existing contracts, with the result that creditors do not know who their debtors are.

This cognitive framework was presented as an instance of rigorous scientific method and rewarded by academic recognition (high impact factor) and Nobel prizes. Actually, applying sophisticated mathematical models to the calculus of risk and return on investment and to financial engineering in general is no less ideological than other less sophisticated theories of social sciences. Most of the economic practitioners applying these complex models to risk-product design and risk-management techniques did not fully understand them, but enthusiastically accepted them as incontestable, since they brought high returns and fostered the illusion that risks could be avoided by translating them into other subjects. These sophisticated models thus legitimized the new high risk products of financial innovation, as well as short-termism and corporate financial control in firms' management, and the expansive monetary policy of the Federal Reserve and the US Treasury.

One word of caution in order to avoid misunderstanding: criticizing the theory of the self-regulating market does not mean denying the role of the market as the central institutional mechanism in the organization of economic processes (the superiority of the open market in contrast to state planning has been historically demonstrated). Too little market has negative consequences as serious as its opposite, i. e. too much market. It is not the fundamental role of the market that is put into question, but market fundamentalism and the lack of regulation. Consequently, both an excess and a defect of state regulation and government intervention are to be avoided. Economic efficiency and social cohesion are better achieved wherever an effective system of checks and balances exists among the actors and the institutions of the market, the state, and civil society and whenever reasonable compromises are sought in the pursuit of freedom, equality and solidarity. In the last thirty years of global capitalism there has been an excess of unregulated markets, a growth of inequalities and a corresponding lack of government controls and redistributive policies. In other words, we have witnessed too much freedom to exploit one's own financial capabilities and too little equality of opportunities, as well as a double reduction of the notion of freedom, since freedom has tended to be reduced to economic freedom only and economic freedom has tended to be reduced to the production of money through money.

The cognitive aspect of the crisis, i. e. the hegemonic position of the theorists of the self-regulating market in mainstream economics, is relevant in many ways. First, it provided a "scientific" legitimacy for those financial actors who adopted a type of behavior that not only was arrogant and greedy, but underestimated risk; self-regulation did not take place, and leverage was excessive, fostering huge gains in percentage of the capital actually invested but very high losses as well. Let us take the case of one of the most famous hedge funds, *Long-term Capital Management* (*LTCM*) funded in 1993 by John Meriwhether, with two Nobel prizes for Economics as partners (Myron Scholes and Robert Merton); when it fell into crisis in 1998, the fund was exposed for 100 billion dollars and had a capital of only 1 billion with a leverage of 100, so that a modest loss of 1% was sufficient to lose the whole capital and go bankrupt. Since the two economists won the Nobel because of their theories on "creative finance," which contributed to the legitimation of the new financial products, it would not be inappropriate to ask them to give the prize back. The spectacular crashes of individual hedge funds, such as LTCM, Amaranth (which lost $6.6 billion on energy derivatives), Vega Select Opportunities and several others, were underestimated and even ignored, since the fact that crashes did not result in a major financial crisis was seen by policymakers such as Greenspan and Bernanke as evidence of the resilience of the system. However, the persuasion that the self-regulation of the investors themselves was quite sufficient and there was no need for outside regulation has proved to be dramatically wrong. As Greenspan said at the October 2008 *Congressional Hearing on the financial crisis*: "to exist you need an ideology: The question is whether it is accurate or not. And what I am saying is, yes, I found a flaw": In other words, the cognitive framework is important, and it can be wrong.

Second, and even more important, this framework legitimated the huge gains of other social groups (besides financial investors), such as corporate chief executives (with pay boosted by stock options), lawyers, business consultants, auditors, government advisors and opinion-makers, and provided arguments for lobbyists by affirming that the explosion of unregulated finance was good for the whole economy.

Third, it fostered the general climate of euphoria in American families, persuading them that housing prices would continue to rise, consumer credit would continue to expand, and new financial products that were certified by rating agencies (affected by clear conflicts of interests) were safe, since risks were guaranteed by the interconnection of financial institutions.

It must be said that not all economists failed to foresee the crisis and underestimated the systemic risk. Just to take a few examples, Kindleberger (1978) had for a long time warned against the risk of an asset inflation due to the rise of shares and house prices. Godley (2007), Kregel (2007) and the other members of the *Levy Economics Institute* expressed serious doubts on the sustainability of the growth of the American economy. Others revived Minsky's (1982) general theory of financial crises. Roubini and Uzan (2006) insisted on the risk of explosion of the housing bubble. Even the IMF in its September 2006 *Global Financial Stability Report*, just before the crisis, noted, in its usually cautious language, that, "markets are concerned about the possibility of illiquid market conditions for some of the new and complex financial instruments, such as structured credit products" (IMF, 2006, 1). And in the following pages the Report continues warning that, should growth slow or inflation rise, it is reasonable to wonder whether financial markets might react to less favorable developments in a way that could amplify – rather than dampen – the emerging risk. Other economists, such as Dodd (2002), argued that if hedge funds cannot prove themselves capable of effective self-governance, then the regulatory framework should provide for market supervision and market surveillance; and, more specifically, if they are taking large positions in securities and derivatives markets they should be subject to large trader-position reporting requirements.

4 The power of lobbies and the weakness of regulation

The fundamentalism of the self-regulating market is one of the main causes of the crisis. But if self-regulation of financial markets did not work, why did the regulatory system – the second bullwark against crises – not work either? In other words, if financial actors consciously abandoned caution rules of capital exposure and risk assessment for the reasons we have outlined above, why did regulators lower their guard as well? Three lines of explanation are here in order:

a) the first focuses on policy mistakes and predictive errors of the regulatory authorities;
b) the second argues that globalization greatly reduces the effectiveness of many traditional instruments of economic policy, including monetary policy and exchange rate policy;

c) the third stresses the role of active lobbying by a powerful coalition of pressure groups that had clear interests in fostering deregulation and making existing controls inapplicable and ineffective.

I will briefly review the first two and concentrate on the third. As far as predictive errors, policy failures and mismanagement are concerned, they are mostly due to the predominant cognitive framework of deregulation that I have criticized above. Regulators were deeply influenced and could not effectively cope with a situation characterized by new and highly complex financial products that contributed to making traditional control mechanisms obsolete. This remark raises the question of the relation between innovation (a key feature of capitalist economies) and control (a key feature of democratic polities) and the need for a proactive regulation of financial innovation.

A related line of explanation of policy failures and ineffective regulation is the fact that previous crises had been successfully managed basically through monetary policy. Previous crises in the 1990s either arose at the semi-periphery of the world capitalist system or, when exploding in the centre as the new economy asset-price bubble of early 2000s did, were successfully managed through further credit expansion (not repeating the key error of the 1930s crisis). The application of Greenspan's monetary philosophy was effective in managing the crisis without fostering inflation – through the increase of the money supply by the US Treasury – because of the central, privileged position of the dollar and the ensuing willingness of major exporting and saving countries like China and Japan to finance the huge American public and private debt in order to finance their largest export market. But in the real estate asset-price bubble and sub-prime crisis, even a monetary policy of very low or even zero interest rates did not work, because of the sudden reversion from generalized confidence to widespread lack of trust and from low risk to high risk perception among bankers, managers, savers and consumers alike. The sudden reversion of trust and the generalized financial panic were made worse by collective ignorance about financial complexity by a lack of trust in the self-regulating power of financial markets and in the restorative capacity of monetary authorities, and by the generalized tendency in such a situation to save oneself at the expenses of others when things become worse.

As far as the second type of explanation is concerned, it is almost commonplace to remark that integrated world financial markets can escape state controls and bypass regulation. The argument is well known; the advance of globalization is generally held to reinforce the problems of effective autonomy and the difficulties of realizing sovereignty in practice. Authors such as Shaw (2000) emphasize the transformational effects of new technologies of communication, information processing and transport in facilitating the development of global-scale business enterprises and integrated world financial markets and services, and the emergence of new global elites. Such developments confront states with serious challenges.

Globalization erodes national sovereignty, and global social interactions transcend "national" frontiers and reduce identification with nation-states and their territorially bounded communities. Traditional government action is subject to constraints and pressures arising outside the state's frontiers. State controls become to a large extent inapplicable, because of fiscal havens and the high mobility of capital, and the effectiveness of traditional instruments of economic policy – such as including monetary policy and exchange rate policy – is limited. Direct influence over industrial and financial systems is reduced as business enterprises exploit the flexibility provided by transnational modes and global scales of operation. Nation states compete with each other not only in terms of policy incentives for foreign investments, but also in terms of reduced controls.

The problem of governance within a fragmented inter-state system is thus compounded, rather than ameliorated, by the advent of globalization. Appropriate political responses represent a pressing and inherently problematic matter. The traditional reliance upon the activities of the sovereign state internally, and a "balance-of-power" amongst states externally, no longer appears satisfactory to many observers. A range of alternative modes of global governance is therefore under active consideration by students of politics and international affairs, but their effectiveness has still to be proved (Martinelli, 2008).

A basic argument of this paper is that the global crisis erupted not only because of predictive errors, policy failures and mismanagement by government authorities, and because globalization makes nation states' regulation ineffective, but also because in several countries, and first of all in the United States, existing government controls were dismantled and new ones could not be introduced as a result of the successful lobbying of a very powerful coalition of interests with big money at its disposal. Policy-makers have not been taken by surprise because of the highly unlikely series of events (the "black swan" metaphor, Taleb, 2007), but because they were to a great extent impotent to control it as a result of the conscious pressures of specific interest groups (and of the prevailing culture of the self-regulating market).

The components of this powerful coalition are numerous and form a structure of concentric circles: in the core, the protagonists of the new finance, first of all the big American investment banks and their highly paid employees, but also a good number of commercial banks in the United States and other developed economies, hedge fund managers, financial analysts and brokers; in a second circle, highly paid corporate chief executives, auditing firms which were at the same time consultants of the corporations that they had to audit, rating firms with evident conflicts of interests, lobbyists, lawyers, business and government consultants; in a third circle, members of legislative and executive bodies and of the federal and state bureaucracies; in a fourth circle, academic think-tanks, opinion makers and the media. When we consider that at the end of 2007 with the financial crisis already in full motion, the five largest American investment banks have distributed bonuses to a few thousand employees for a total sum of 38 billion dollars, we can perceive the stake that was involved. And if we add bonuses and stock options for managers of big corporations and the fees for consultant services, we realize that the size of interests at stake and the scale of resources to pursue those interests are very high. Thanks to the resources of wealth, power and prestige, these financial, business, cultural and political elites effectively lobbied and influenced policy-making in order to weaken the rules and control systems.

So far, I have identified rich and powerful social groups who are capable – because of their wealth and power – to lobby for their interests in the US political system. However, the coalition of interests behind the present crisis is not only powerful but also wide. The broad consensus for this financial capital economy cannot be fully understood without considering that the coalition of interests involved included large numbers of investors and consumers, although with quite different types of benefits; these people form the most external circle and both participated in the financial boom and later became the victims of the financial crisis. Most of those who bought the products of shadow finance – and even many of those who sold them – did not know or could not understand the mathematical models and the bundling techniques behind them, but were persuaded of their validity as clever tools for obtaining high returns while translating the risk to others. The coalition backing the explosion of shadow finance included large numbers of heavily indebted American consumers "who lived above their possibilities", like the twenty million consumers who now run the risk of losing their homes because they cannot pay their mortgages – many belonging to low income groups who were able to obtain a loan at a subprime rate, even if they were of the "ninja" type (no income, no job and no asset). The thesis developed by Reich in a book which came out in 2007 just before the crisis (without perceiving any sign of its coming) argues that ordinary American is schizophrenic since, as a consumer and investor, he strongly favors the state of the economy ("super-capitalism"), while as a citizen he fears – or should fear – the risk for democracy in such a system.

There is some truth in Reich's thesis, but it should not obscure the fact that there have been winners and losers in global capitalism: the most significant winners are chief executives and successful speculators in the domestic and international financial markets. The losers are workers whose jobs, working conditions and pensions are put at risk, and investors not in the know (Glyn, 2006). Wealth and income distribution in the United States and in other societies with financial capital economies has become significantly more unequal (Martinelli, 2007). Barack Obama's insistence on the contrast between the interests of Wall Street and those of Main Street is not just a successful political slogan. And the power of business lobbies is very real.

The importance of lobbying in American politics is well known. It has to do with the institutional architecture of the US polity, where policy-making is dispersed in complex frameworks of governance, interest groups are very influential, and their activities are intense at different entry points to the policy-making process. The history of the United States is rich in examples of the lobbying power of business and of great presidents' struggles for resisting and curbing that power – from Jefferson to Lincoln and the two Roosevelts (Perrow, 2001; Phillips, 2002; Reich, 2007).

However, in recent decades, a new factor has significantly increased lobbying power: the fast rising costs of political elections in a polity where political campaigning never ends and the media's power grows (Martinelli, 2007). Several factors characterize the permanent campaign (besides the short two-year mandate of all members of the House and one third of senators): the holding of separate federal, state, local and other elections at different times, the decline of traditional party organizations, the diffusion of primaries for selecting candidates, the growing impact of the mass media, and the proliferation of polling. As a consequence of more frequent election campaigns, more organization and communication needs, and more opinion polls, the demand for money has greatly increased, forcing candidates and elected officials to engage in constant fund-raising activities. Rising electoral costs are a common feature of contemporary mass politics all over the world, but in the US they have reached new highs.

The total cost of American elections more than tripled in the second half of the 20th century – from about $900 million in 1951–1952 to over $3000 million in 1999–2000 – and has increased dramatically (more than doubled) since the late 1970s, both for presidential and congressional elections (Ansolabehere et al., 2003). Much of the money comes from the Political Action Committees (PACs), made of corporate managers and lobbyists who gather contributions from other managers and business partners. The number of lobbyists active in Washington rose from approximately 5,500 in 1977 to almost 33,000 in 2005 (Congressional Budget Office, various years). The number of lawyers registered in the District of Columbia Bar Association similarly increased from 21,000 in 1976 to 77.000 in 2004. Even more revealing is another indicator: the percentage of former Congress members who have become lobbyists has grown from 3% in the 1970s to more than 30% in the first decade of this century. And the professional fees have greatly increased as well: in recent years the starting salary of a former congressperson or a former member of the White House staff with "good connections" is $500,000 a year, but a former chair of a congressional committee or subcommittee can ask as much as $2 million to pressure their former committees (Reich, 2007).

Although the overall picture is that of organized pluralism, the interest-group system is biased, since some interest groups, endowed with greater resources, are more influential than others (Dahl, 1976). Despite the large increase in the number of groups active in politics, the business dominance of the Washington interest-group galaxy is even more pronounced now than it was in the past (Schlozman and Tierney, 1981; Fligstein, 2001). Corporations – US and foreign – account for more than 50% of total lobbyists in Washington, with trade associations adding a further 18%, whereas citizen groups account only for 4.1, unions for 1.7, civil minorities for 1.3 and social welfare and the poor for 0.6 (Ladd, 1994). Corporations and trade associations also account for more than 50% of total office space, with professional associations coming third with almost 5%. Even a policy domain such as foreign policy – in which the national interest should prevail over private and sector interests – shows clear signs of privatization, owing to the great influence of specific interest groups on decisions concerning such key sensitive areas as the Middle East and the oil and weapons industries. The George W. Bush administration provides evidence of the impact of business interests on foreign policy decisions. Although scholars such as Lowery and Brasher (2004) argue for a more open interest groups politics in the US, on the whole the thesis of business dominance is convincing. The great majority of these lobbyists and lawyers work for corporations. Since the 1990s more than 500 corporations have kept permanent offices in Washington that employ more than 60,000 lobbyists (with a good number of corporate lawyers among them). Corporate pressure groups greatly predominate over other groups and tend to become bipartisan, or, more precisely, have a preference for Republicans, but increasingly (after the 1992 Clinton's victory – and as a result of the efforts of Tony Coelho, head of the Democratic Congressional Campaign Committee – and again since 2006 with the new Democratic majority in Congress) try to win support in both camps.

Two major approaches to political influence can be distinguished: one is to contribute to the costs of electoral campaigns, the other is to lobby for or against a given piece of legislation. The former approach also extends to candidates who are more politically/ideologically distant, since they can win too, as the big investment banks giving money both to Mc Cain's and Obama presidential campaigns showed. The latter approach is aimed at the party, the congresspersons and the government officers who can support the specific interests at stake. Bipartisan financing contributes to explaining why Clinton did not succeed in passing a health reform (and Obama did it with difficulty), since huge money was spent by insurance companies, pharmaceutical firms, the American Medical Association, to pressure members of Congress not only of the Republican opposition but of the presidential party as well. And it helps to explain why key decisions on deregulating financial activities were not approved during the Clinton administration. Reich (2007) remarks ironically that the willingness shown by Clinton to host corporate leaders at a night in Lincoln's room has confirmed the old saying that the White House is the only hotel where the guests should leave a chocolate on the pillow.

The growing importance of pressure politics must be explained in terms not only of the needs of candidates but also of the willingness to spend money for lobbying. The key factor in this respect is the growing competition among economic sectors, interest groups and single corporations, which has extended from the market to the political system. Google's fight against Microsoft's monopoly practices in the software industry is an illuminating case. Before becoming a joint-stock company in 2004, Google had no office in Washington and praised itself for not becoming involved in pressure politics. But everything changed in 2004; millions of dollars are now spent every year by Google, no differently from its competitors – Microsoft, Ibm, Yahoo, Sun, Oracle. In 2010 Google and Verizon have proposed that Congress allow wireless services to remain free from regulation, against the opinion of the Federal Communications Commission (The Economist, 2010). A similar case was Wal-Mart's attempt to enter into the banking system, which was frustrated in a powerful battle with opposing lobbyists in Washington (Wysocki, 2006).

So far, I have discussed examples of corporate lobbying which extend the competitive struggle from the market to the political arena. In both the Google versus Microsoft and Wal-Mart versus the American Bankers Association cases, one side was for applying anti-trust laws and the other side for more deregulation. But in the case of shadow finance, lobbying on deregulation was much more powerful than pressure politics on the other side. The lobbyists of shadow finance acted both to dismantle existing controls and to block new regulatory measures, thus contributing to the global crisis.

Many are the examples of effective lobbying in favour of deregulation. A very relevant one was the Gramm-Leach-Bliley Financial Services Modernization Act, approved in November 1999, which drastically softened controls and constraints on financial activities, abrogating among other things the Glass-Steagall Act, which since the New Deal and for more than seventy years, had maintained the activities of commercial banks separated from those of investment banks and insurance companies in order to protect investors. It has been estimated that the banking, insurance and securities industries spent over $300 million lobbying Congress to shape that reform to meet their own interests (Economists for Obama, 2008). Even more relevant in avoiding any control for the products of derivative finance was Gramm's amendment to the budget law in Clinton administration' last year, which freed financial derivatives from any type of control, both from the surveillance of the Security Exchange Commission (SEC) and of the Commodity Futures Trading Commission (CFTC).The latter agency was created to control contracts that were originally introduced to shore firms from fluctuations in energy and raw materials prices and had later degenerated into fast growing, purely speculative financial products. CFTC has been the target of much lobbying. Two CFTC heads, first Mary Shapiro and then Brooksley Born, had tried to regulate futures, but their requests were rejected by the federal authorities (Federal Reserve president Greenspan, Clinton's Treasure Secretary Rubin e SEC president Levitt). In 2005 the House passed a bill that authorized CFTC to investigate the price of gas and required gas producers and sellers to keep an official price record. The bill was backed by the Industrial Energy Consumers of America, but fiercely opposed by the much more powerful lobby of financial services (made by the Swaps and Derivatives Association, the Bond Market Association, the Securities Industry Association, the Futures Industry Association), who finally won. These are the same interest groups that have lobbied to exempt "over-the-counter" transactions for energy raw materials from regulation in the Commodity Futures Modernization Act (which was later called the Enron clause), to obtain the SEC decision to allow overleveraging, i. e. a three times increase in the indebtedness capacity of investment banks, bringing the leverage from 1:12 to 1:33, to resist any attempt to submit the credit default swaps (the nominal value of which was estimated in $ 58 trillion in 2004) to a regulating authority, and to stop the project for a clearing house of financial transaction (which was actually rejected by a presidential commission formed by Greenspan, Rubin and Levitt).

Similar networks of interest groups have been active in the other developed and developing economies, from the European Union to Japan to the BRIC countries, but in the US these are more aggressive and pervasive. It is worth noting that this type of successful pressure politics took place under both the Clinton and Bush administrations and with different majorities in Congress, showing – as I argued earlier – that although Republicans are on the whole more sympathetic to Wall Street pressures, corporate lobbying is bipartisan. The attitudes of the 2008 presidential candidates have been, however, very different. Although the strength and pervasiveness of corporate lobbying was widely recognized by Democrats and Republicans alike, little had been done until recently. Obama has made the need to curb lobbyists' power a *leitmotif* of his electoral campaign and a key element of his consensus formation from the White House, and in the first two years in office he succeeded in passing legislation for greater regulation. But the power of financial lobbies is far from over. It is worth asking whether the cognitive and political aspects of the crisis I have analyzed so far are less an obstacle than before in the implementation of policies aimed at enforcing new forms of regulation of global markets.

5 Conclusion: are new regulatory policies possible?

Are these factors less powerful after the crisis? With some caution, I say they are. The cognitive framework of the self-regulating market is still strong, but its cultural hegemony is less firm in economics and more disputed by policy-makers and in the public discourse. There are signs of a new intellectual climate, as the revival of minority traditions in economics (from neo-Keynesian to neo-institutional) and the increasing critiques of mainstream economic theory and method indicate (Blankenburg and Plama, 2009). Just one example: Lawson (2009) takes the economic profession to task for prioritizing technical acumen over concern for relevance and argues that, when addressing an open social system, it is futile to cling to mathematical-deductive methods and it is necessary to adopt alternative approaches concerned more with understanding underlying structures and mechanisms and real-world possibilities. The question is not to reject mathematical models, but to avoid relying only on abstract modeling with no reference to the contributions of other social sciences and history in the study of real economic processes. Even the granting of the 2009 Nobel Prize for Economics to two scholars of governance – Olsen (a political scientist) and Williamson (an economic sociologist) – is a symptom of change. Mainstream economics is, however, still well entrenched in first-class universities and academic journals.

As for the other factor, the power of financial lobbies in pressure politics is still strong, but Obama has had some results in curbing it. He has been able, at least to some extent, to build a counter social coalition, reversing the previous New Republican strategy developed by Reagan. That strategy was successful in putting an end to the long democratic hegemony in Congress – which was supported by the social coalition originally formed in the New Deal and consolidated by Kennedy's New Frontier and Johnson's Great Society. Reagan's strategy succeeded in concentrating the traditional hostility of middle-class America towards "big government", but not towards "big business" (as it had often been in the past, Martinelli, 2007) and in integrating two different streams of political protest against liberal politics, i. e. populism and conservatism. Unlike early-twentieth century populism, the populist argument against the big government of Washington politicians and bureaucrats was disconnected from the parallel critique of big business' corrupting power, since corporate elites presented themselves as the true defenders of free market and individual initiative against hypertrophic and ineffective federal government. With a remarkable ideological turnaround, business elitism – which had been both the target and the adversary of populism – could acquire a new legitimacy through the latter.

The economic crisis helped Obama to reverse this situation; in his presidential campaign he pledged to defend Main Street against Wall Street and was able once again to direct popular aggression against irresponsible business leaders and financial oligarchs, making it a key element in his strategy of consensus formation. Once elected, he tried to provide the federal government with new public recognition by adopting effective measures for managing the crisis, regulating shadow finance and by implementing basic reforms such as health reform. To Reagan's famous saying that government is the problem, not the solution, Obama answered that it depends on what government does. Judicial investigations into the illegal operations of Goldman Sachs's managers have helped, as well as the exposure of the huge bonuses for chief executives of banks bailed out with citizens' money. The Dodd-Frank Wall Street Reform and Consumer Protection Act – signed into law by Obama in July 2010 – was a relevant step in his financial regulatory reform agenda. It includes the creation of a new consumer financial protection agency and a new financial super-regulator – with representatives of the SEC, Federal Reserve and Treasury Department – (the Financial Stability Oversight Council); it strictly limits the amount of its capital a bank can invest in hedge funds and private equity funds to 3%; it gives Federal Reserve the authority to wind down institutions that present a systemic risk for the economy; it requires registration with the SEC of both hedge funds and private equity firms with more than $150 million in assets; it reforms the complicated derivatives market, and it requires borrowers to prove that they can pay back even the most basic of mortgages. The bill has been emphatically presented as the most sweeping overhaul of financial regulations since the 1930s. Obama said that Americans would never again pay for Wall Street's mistakes, adding that Wall Street had tried but failed to scupper the bill. The bill actually provides new ways to watch financial risks and makes it easier to liquidate large failing firms.

However, it is clearly the outcome of a pragmatic compromise that shows the continuing relevance of pressure politics. The coalition of interests resisting regulation is, in fact, still strong and the relations between finance and government are still very close (not by way of some conspiracy, but simply through close, often personal, relationships between high-level government officials and business and banking officials who occasionally trade places).

To conclude, Obama is trying to make regulation of the financial system more effective in order to avoid future crises of the type we have recently experienced. But the consensus that Obama can obtain from his policy of financial regulation risks being nullified if the exit strategies from the economic recession are not successful. The growing influence of the Tea Party movement (heavily financed by Koch industries and other business pressure groups) and the success of the Republican Party in the 2010 mid-term elections show that the populist, anti-tax, anti-federal government ideology is still very strong among American citizens and that the ultimate factor in deciding the next presidential elections will be, once again, the state of the economy. It is not enough to pass legislation that can make financial crises like the present one less likely; it is necessary to foster an economic recovery that creates new jobs and new growth. But in the age of globalization, these goals cannot be achieved by the US government itself, but only within a context of multilateral governance. The most important testing ground for a strategy of more balanced relations between market and politics is, in fact, an effective global governance of the world economic crisis capable of fostering a new sustainable growth. Governments' policies aimed at regulating markets and fostering economic recovery should be effective domestically and at the same time coordinated at a supra-national level, and state actors should work together with non-state actors, since global interdependence needs global governance and the active involvement of all key actors of the world society.

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