

Debt Prophets: American Bankers and the Origins of Financialization

From 1955 to 1985, American commercial banks expanded overseas at a breakneck pace, raising foreign branches from 115 to 915 and foreign assets from \$2 billion to \$329 billion. Over the same period, banks developed innovative financial products and financial services markets, leading Nobel-laureate economist Merton Miller to remark in 1986 on the preceding decades of banking, “Can any twenty-year period in recorded history have witnessed even a tenth as much new development?” This phase of rapid expansion and innovation laid the foundation for a merger and acquisition wave that transformed American finance: between 1984 and 2008, the number of commercial banks in the United States halved, falling from 14,400 to 7,175. What caused this drastic transformation and concentration of finance? I argue that its origins lie in a concerted effort of commercial banks to circumvent and break the New Deal’s financial regulatory regime, a campaign that began in the late 1950s. In my dissertation project, I seek to elucidate the role of commercial banks in the origins and development of financialization. Using largely untapped archival data on American commercial banks, bankers, and banking trade associations, I demonstrate how American commercial banks innovated and expanded to break customary banking arrangements; circumvent New Deal financial regulations; initiate a merger and acquisition wave; and reconstitute finance towards a global, financialized regime of accumulation centered on rising household indebtedness.

Prevailing accounts of the origins of financialization center on either the contingent decisions of federal policymakers or deterministic analyses of postwar macroeconomic developments. Institutional accounts find the impetus for financialization in American political transformations, focusing on the actions of federal policymakers in response to either a legitimization crisis or to an interest group of consumer activists who applied political pressure for deregulation (Helleiner 1994; Krippner 2011, 2017; Prasad 2012). Political economic accounts see financialization as a response to contradictory macroeconomic developments – such as financial instability or falling industrial rates of return – that tend towards crisis and resolve in financialization (Arrighi 1994; Duménil and Lévy 2004; Lapavistas 2013; Magdoff and Sweezy 1987). These accounts provide important angles of vision into the origins and development of financialization, but they overlook both the crucial role of bankers as agents of financialization and the importance of the multiple scales of financialization, from global to domestic political economy, and from federal to state-level politics.

Drawing on institutionalist and political economy approaches, I argue that American commercial bankers organized a political and economic project to undermine the New Deal financial order in response to the combined pressures of restrictive financial regulations and declining postwar macroeconomic conditions. Beginning with the Eisenhower recession of the late 1950s, bankers organized both political interventions through lobbying and pressuring regulators and economic interventions through expansion domestically, internationally, and into innovative financial products and markets. Bankers sought to transform the customary mode of financial accumulation of the New Deal era and to circumvent its regulatory regime, which many bankers saw as an existential threat. Walter Wriston, head of Citibank from 1967 to 1984, noted this sense of urgency arising in the late 1950s for banks to change course: “The message was if we continued the way we were going, we would die” (Zweig 1995:111). In the words of Tom Storrs, head of North Carolina National Bank from 1969 to 1983, the solution was clear: “innovate or liquidate” (Storrs 1971:4).

The Early-Career Scholars Research Fund would support research trips to two bankers' archives, which lack internal funding sources and are crucial to my dissertation research. The first is a two-week archival research trip to the Gabriel S. Hauge Papers, 1929-1981 at the Minnesota Historical Society's Gale Family Library in St. Paul, Minnesota. Hauge was a senior economic advisor for President Eisenhower and an early leader among bankers as head of Manufacturers Hanover Trust from 1961-1979 and as president of several banking trade associations. He spearheaded the bank holding company movement in 1968, which is key to understanding how banks began to break the New Deal's market and geographic restrictions by using innovative legal and organizational strategies entities to advance their interests. The second is a two-week archival research trip to the Walter B. Wriston Papers at Tufts University's Special Collections near Boston, Massachusetts. Head of Citibank from 1967-1984, Wriston is widely considered the most influential banker of his era and was a leading architect of financial deregulation and several financial innovations, including the Certificate of Deposit, the nationwide credit card, and the ATM. I am particularly interested in a recent accession to his archives, which include internal Citibank documents inaccessible elsewhere as well as a trove of interviews on Citibank and Wriston.

Budget

- Flight from Cincinnati or Dayton (home) to Boston (\$200)
- Flight from Boston to St. Paul (\$150)
- Flight from St. Paul to Los Angeles (home for fall 2022 semester) (\$150)
- Accommodations in St. Paul (\$1000)
- Total: \$1500

I plan to stay with a friend in Boston, so I will have relatively minimal accommodations costs during this portion of my research travels.

References

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