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Introduction

The Puzzle of Contemporary Banking

The global financial crisis (GFC) in 2008 still conjures a dark image of the dangers of banks' innovations and their destructive potential. This memory is still in the foreground during recent financial disasters. And since 2008, there have been many. While European financial regulators and pundits had started to claim that the financial sector had cleaned up its act and became more resilient, the default of Silicon Valley Bank in March 2023 and subsequent emergency takeover of Credit Suisse yet again brought about a sense of déjà vu and panic. Credit Suisse defaulted, and its rescue represented another instance of a public bailout of a European bank that was 'too big to fail'. Just three years earlier, in March 2020, the COVID-19 pandemic threatened an equally large financial calamity when the extent of the economic fallout became apparent and financial markets almost collapsed.

What combined the financial mayhems was a US dollar (USD) funding problem and a subsequent supply of USDs by the central banks. When the Swiss bank Credit Suisse collapsed, central banks quickly provided short-term USD funding – not Swiss Francs (SFr) nor Euros (EUR) – to stop other banks following suit. In March 2020, financial institutions across the globe rushed to equip themselves with USD, selling off long-term Treasuries to be able to meet their income shortfall and nearly causing another global credit crunch. To the financial community's benefit, the Fed also stepped in to meet USD demand, much quicker and to a larger extent compared to the GFC. These barely averted global crises raise the question of why, despite major financial and regulatory efforts since the GFC, so many banks are still so precariously dependent on short-term USD funding. Why is there still such a dangerous USD bottleneck for the functioning of global financial markets?

One obvious answer is that the USD is the global reserve currency. Financial markets and money are hierarchical structures, and financial agents will rush to the apex of the pyramid – the USD, a global financial safe haven – whenever financial turmoil looms. During crises, the USD is in demand while other currencies are sold. US capital markets are the deepest and most liquid markets globally so that they not only provide the safest assets such as Treasury bills, but they ensure steady demand and a variety of other financial securities that can serve as collateral in case an investor needs to monetise their assets during liquidity shortages. One can easily imagine the design flaw of a global system in which every agent suddenly requires the same currency at the same time.

This, however, rather confirms the problem at hand and raises the question of how we ended up in this situation. The fact that European banking giants were dependent on USD funding and could only be rescued with USD – and hence by the US Federal Reserve (Fed) – is historically new. European banks used to enjoy large-scale institutional and public support and were seen as bulwarks within European political economies. What is often seen as a key characteristic of US banks' power – the fact that they have become megabanks, joining commercial and investment banking to provide a huge range of financial services – the European banks long had. In fact, US banks historically envied European banks for their power and influence over European corporate governance, economic activity and policymaking (Danielson, 2016; Kobrak, 2007). Why have European banks embarked on this radical transformation in which they became so deeply dependent on US financial markets?

To answer this question, this book reaches into history to analyse processes of financialisation outside the US. I develop the concept of extroverted financialisation (EF) to reframe the transformation of European banking and to develop analytical tools to analyse the causes of and motivations behind financialisation. I put forward the argument that beyond the well-known run up to the GFC, there has been a more fundamental transformation since the 1960s when European banks attempted to root themselves into global USD markets. At that time, European banks had to respond to the rise of new US funding practices that made US banks astonishingly powerful. To be able to compete with US banks, I show that European banks had to partially uproot their operations from their own home markets to institutionalise themselves into US money markets. This shift required a fundamental transformation of the core of their own banking models towards US-style finance. The adjustments and innovations these banks made in the process produced unforeseen changes of their operations that are closely related to their contemporary problems.

This book's key protagonists are Deutsche Bank and Commerzbank, Germany's two biggest private universal banks. Focusing on how they have tried to compete with US banks, I trace their transition towards global investment banks and the fundamental problems this has produced for the global financial architecture. Most accounts of German finance locate its transformation domestically in the 1990s when, no longer able to resist the global pressures of rising securities markets, Germany embarked on a project of financial liberalisation. By contrast, the book relies on a longer trajectory that extends back to the 1960s when the banks began to operate in the Eurodollar markets, the first major USD offshore markets proliferating in Europe at the time.[1] This long-term global outlook reveals important turning points in their international history which have not yet been accounted for: of the 1970s when the banks began to centralise their operations in London to learn US finance and of the 1980s when they started to arrive in US money markets. Based on this history, I show how German political economy is deeply intertwined with global financial markets. I argue that key to German financialisation has been the banks' extroverted strategies that forced them to significantly uproot themselves from their home markets and to find ways to establish themselves into US wholesale markets.

From the banks' perspective, I reassess where financialisation originated, how its processes redrew the boundaries and practices of global finance, and how this translated into Europe. As powerful European financial institutions, German universal banks provide a useful case study for this revisionist history. As such, the book tells the story of the rise and decline of key capitalist institutions – large universal banks – that are often seen as the founding fathers of the European industry and social model. This belief in a European financial system that was different to the US, and somehow more 'social', came crashing down during the GFC. Financialisation seemed to have finally caught up with a European political economy that was previously considered immune to the worst of the speculative bouts of global financial markets (Schelkle & Bohle, 2020).

Scholars, experts and politicians alike were quick to proclaim the GFC as a US problem when the crisis first appeared. It was supposedly a product of an 'irresponsible rise of the laissez-faire principle' according to Peer Steinbrück, Germany's federal finance minister at the time (cited in

[1] Eurodollars are deposits of large sums of USD that are created outside the US by any institution not resident in the US. This can include the foreign branch of a US bank or a foreign bank that is non-resident in the US. Thus, when a US bank shifts USDs to its London branch and receives in return a deposit, it has created a Eurodollar deposit. The Eurodollar markets grew quickly. The Eurodollar Certificate of Deposit (CD) market, for example, was more active in 1990 than the market for CDs in the US (Stigum, 1990, pp. 56, 199ff).

Hardie & Howarth, 2013a, p. 104), confined to the outcome of inadequate regulation and runaway financial markets infused with too much greed and speculation. Less than a week later, he announced the biggest public bailout of a German financial institution to date, €35 billion to Hypo Real Estate. Subsequently, Commerzbank, the now second biggest commercial bank in Germany after its takeover of rival Dresdner Bank in 2008, received a public bailout of around €18 billion (Buch et al., 2011) with the German state still owning a 15 per cent stake in it.[2] Barclays, ABN Amro, Royal Bank of Scotland, UBS and Société Générale all experienced similar fates and public bailouts. They fell down the ranks and mostly out of the top twenties (Danielson, 2016). The involvement in US finance brought Europe's national champions to their knees and they are yet to get up.

German banks in particular have been struggling. Commerzbank disastrously took over Dresdner Bank in 2009 (Paul et al., 2020) but Dresdner's investments in the US mortgage industry produced extensive write-downs so that Commerzbank had to withdraw its US money market activities. It is now trying to redefine itself as a 'European' investment bank but is in constant danger of a foreign takeover. Deutsche Bank – often seen as the most successful US investment bank amongst the European lenders – has perhaps fallen furthest. John Cryan, head of Deutsche from 2015 to 2018, emailed his employees modestly: 'we have ambitious goals, but the numbers do not add up just yet' (cited in Willmroth, 2018, own translation). Post-GFC, Deutsche (co-)produced many scandals (cf. Enrich, 2020). In 2016, the world waited aghast for the outcome of Deutsche's court hearing as the US Department for Justice threatened to ask for USD 14 billion to settle claims connected to Deutsche's alleged mortgage fraud (The Economist, 2016). The deal was settled for a manageable USD 7.2 billion (The Economist, 2017), but this showed that the US could bring down the German giant (Tooze, 2018, p. 16). What followed was a back-and-forth between expanding and contracting its US business, common amongst the European universal banks attempting (miserably) to keep a foot in lucrative US financial markets[3] (Noonan, 2020). The public credit program of the COVID-19 pandemic brought some relief to the German lenders, and they withstood the 2023 turmoil surrounding US-based Silicon Valley Bank. However, their position remains

2 The entire bailout of the German banks amounted to roughly a quarter of German GDP (Hüfner, 2010).
3 Compare Gibadullina (2023) for a breakdown of the phenomenal profits of the US finance industry.

precarious. A few days after UBS' emergency takeover of Credit Suisse in March 2023, Deutsche's shares tumbled, and financial commentators were quick to wonder if Deutsche was next in line.

German banks represent a useful example of the pressures and constraints that global European banks faced not only during the crisis but also during the decades preceding the GFC, including USD dependency, the rise of global financial markets and regulatory challenges. I maintain that financial systems have recognisable national and regional coordinates that are important to keep in mind to understand extroverted strategies of individual banks. Other scholars classify European finance or banking as one category (Bayoumi, 2017; Schelkle & Bohle, 2020) because European universal banking models possess similar characteristics. This has recently been verified when Credit Suisse's obituaries in 2023 described similar histories to memorials of Dresdner Bank or a biography of ABN Amro after their falls from grace during the GFC. Incorporating practices of other European banks throughout the book, I show that German banks have often collaborated or acted directly in competition with other European banks when trying to cope with the power of US finance. Based on this history, I can confidently make claims about important imperatives and constraints that European banks faced during financialisation and the precise responses that Commerzbank and Deutsche Bank came up with.

In choosing two different banks, I demonstrate that banks have responded differently and produced distinct paths of EF. I use the terms German banks, Deutsche Bank or Commerzbank, respectively, when I examine their distinct reactions and when those differences matter. Because Deutsche and Commerzbank significantly diverge in their extroverted paths from the late 1980s onwards, I dedicate Chapters 6 and 7 to their individual transformations and show how the forces of EF were dealt with differently according to the banks' embeddedness in their local context. While the history in this book shows that the rise of US finance posed new imperatives for global markets, causing similar tensions for European banking models, I leave more in-depth research about other European banks for a future project. But in tracing the German transition, I develop broader theoretical conclusions about the US Americanisation of global finance and how we might research its impact in Europe.[4]

[4] Comparing EF with the concept of subordinated financialisation (Bonizzi et al., 2019; Kaltenbrunner & Painceira, 2017), it is the constraints and imperatives with respect to USD funding that are similar for financial institutions in the Global South. A key difference is the powerful starting point that European banks have because the Eurodollar

THE US AMERICANISATION OF GLOBAL FINANCE

The phenomenal expansion and globalisation of financial markets alongside their multiple crises has been termed financialisation. The term has become ubiquitous in scholarship far beyond political economy. But as as we often find with terminology used to describe large-scale processes, financialisation has become a comprehensive but vague concept used to describe all types of market developments and expansions where a financial investor or practice is involved. An influential description states that financialisation depicts the 'increasing importance of financial markets, institutions and motives in the world economy' (Epstein, 2005). The phenomenon of the expansion of markets has come to define one of the key characteristics of financialisation. Indeed, scholars have come to accept that 'financialisation is marketisation' (Braun, 2020; Godechot, 2016).

This phenomenon has historically been associated with the US. Since the GFC, however, scholars more widely began to associate financialisation with European economies that were previously considered immune to the speculative nature of global financial markets. The increasing use of short-term practices and speculation have raised questions about European's own shift to financialisation (Schelkle & Bohle, 2020). Thinking of German banks – or at least its biggest players – as resembling US banks represented a big shift in analytical approaches because German banks were traditionally seen as prudent financial actors that provide long-term funding for industrial production rather than engage with financial speculation (Baccaro & Höpner, 2022; Hardie & Howarth, 2013a; Heires & Nölke, 2014; Streeck, 2009). In political economy scholarship, German finance has often served as a paradigmatic case study because it was the quintessential ideal type of a coordinated market economy (CME) with a bank-based system. Germany was seen as providing optimal conditions for high quality production (Streeck, 1991) because patient capital (long-term loans by banks) supported corporations' long-term investment to build the necessary long-term capacities such as workers' education, research and development, rather than having to respond to the short-term pressures of financial markets such as paying out dividends and shareholder

markets developed in Europe with the British, German and French banks amongst its pioneers, as this book will show, including substantial institutional support for USD funding. Moreover, their own home currencies have themselves been imperial money, for example, the Franc (Koddenbrock & Sylla, 2019).

value (Lane, 2003; Lazonick & O'sullivan, 1997; Vitols, 2005). From this perspective, banks monitor and control corporate performance relying on insider information and close relationships, ensured by many cross-shareholdings and supervisory seats. German banks' own funding relied on stable customer deposits instead of financial securities. Short of bank runs, deposits were seen as more reliable because retail customers tend to be loyal, and bank runs rare.[5]

German finance was termed 'bank-based' because banks were relatively more important for corporate funding than financial markets. Banks' assets are 127% of GDP on average from 1992 to 2011 compared to the stock market (39%) and the private debt market (44%) (Baccaro & Höpner, 2022, p. 256). Equity and securities markets are seen as 'underdeveloped', which often serves as evidence to illustrate the dominance of banks over market-based finance. As the regulatory framework made it difficult for other financial institutions to enter the credit market, the large German banks were powerful not only in the credit business but in the German political economy more generally (Baccaro & Höpner, 2022; Fohlin, 2007; Sablowski, 2008; Vitols, 1998; Zysman, 1983).

By contrast, US finance is commonly characterised as market-based with short-term financial practices that most closely resemble the ideal type of a decentralised 'free market'. US financial markets are deep and liquid compared to European markets, and they are seen as competitive as many financial actors must compete for business. Funding on financial markets is associated with an 'arms-length' or 'transactional' approach to lending. Instead of bank credit, scholars emphasise that corporations often use capital markets to fund themselves. Financial actors would rely on impersonal market metrics to assess non-financial corporation's performance, instead of insider information that German banks could rely upon (Lütz, 2000). Consequently, it was more difficult to form monopolies and banks lent short-term because they are reluctant to assume the risk of long-term lending via volatile financial markets (cf. Zysman, 1983). As a result, US banks traditionally lacked the power that were attributed to German banks.

Political economy scholars identified a change in these stark national differences from the 1990s onwards, arguing that Europe might be converging to the US market-based framework, though the extent is still

[5] The Silicon Valley Bank (SVB) represents a recent bank run, but SVB had an unusual composition of high-value depositors that could be seen as investors rather than traditional depositors (Saeidinezhad, 2023).

debated. Increasing competitive pressures of global (or US) financial markets vis-à-vis coordinated political economies slowly eroded institutional and regulatory frameworks. Scholars refocused their attention to how global transformations affected national economies (Baccaro & Höpner, 2022; Callaghan, 2018; Heires & Nölke, 2014; Jackson & Sorge, 2012; Lane, 2008; Maxfield et al., 2017; Streeck & Thelen, 2005). Global trends such as the removal of capital restrictions and growing international trade started to transform national financial frameworks because regulation gave in to market-pressures and global financial flows. Often, it was useful for certain agents or sectors, either public or private, to give in, adopt or use forms of marketisation so that many jurisdictions experienced a partial form of marketisation (Massoc & Benoit, 2023), even in sectors we would not necessarily expect, such as German public savings banks (Schwan, 2021).

Scholars have thus refocused their attention to examining how banks performed within the apparent growing importance of financial markets. This was a crucial question because the literature had previously relied on a broad-based consensus that the absence of markets was key to banks' power. But increasingly since the GFC, scholars found that market logics have impacted banks during financialisation: Instead of providing long-term loans and taking in deposits, banks buy and sell short-term securities in financial markets as a way of funding themselves and corporations, a fundamentally different way of credit provision to the economy. These financial innovations have been recognised as important to large-scale transformations originating in the US and their expansion into Europe (Gabor, 2016b; Konings, 2008; Thiemann, 2018). Banking is an important feature in understanding those issues because the shift away from deposit banking towards trading liabilities as a way of funding produced profound changes in finance (Knafo, 2022). Banks' business models have been associated with financial globalisation and crisis (Bell & Hindmoor, 2015; Gabor, 2015; Schenk, 2020), an important analytical update because prior to the GFC when financial globalisation was mostly seen as beneficial for global banks.

In response, scholars of political economy have advanced new concepts such as market-based banking (Hardie et al., 2013), market-based finance (Gabor, 2018; Mertens & Thiemann, 2018), shadow banking (Ban & Gabor, 2016; Nesvetailova, 2018; Pozsar et al., 2010) or deal-based finance (Deeg, 2012; Jackson & Deeg, 2012) to depict the fact that banks have marketised their own balance sheets and shifted away from their original purpose of long-term credit provision to the productive sector.

This shift has important implications for the stability and risk within the global financial architecture: As European banks do not have to assume the risk of holding long-term loans anymore, they can play with short-term value and speculative practices on capital markets, just like the US investment banks. While financialisation is associated with marketisation, banking is seen as the marketisation of banking practices, and banks turned into market-based banks (Hardie et al., 2013; Hardie & Howarth, 2013a).

What is surprising about this development is that European banks seem to be doing so much worse than US banks. If European banks became more market-based like US banks, why were US financial institutions not more affected by the GFC than their European counterparts? In the US, the shift from financing patient capital to market-based securities has all but increased the share of profits of financial institutions (Gibadullina, 2023). While Deutsche, Commerzbank and co. have had to significantly withdraw from their US activities, US banks have been striving, reaping profits above and beyond anyone else, not only in the US but also in Europe. In 2016, the top three banks in Europe in terms of investment banking revenues were US banks (Danielson, 2016, p. 9). London, still Europe's most important financial centre, depends on the European subsidiaries of Goldman Sachs, Morgan Stanley, JPMorgan, Bank of America and Citigroup – all US banks (ibid.). The big four US banks have left their European counterparts far behind (Danielson, 2016, p. 58). Apart from a brief interlude in the early 2000s, why have the biggest European banks fared so much worse than their US rivals in this market-based world? What is it about financialisation that has produced this outcome?

I argue that the difficulty in understanding the US Americanisation of finance stems from our inability to grasp the nature of financialisation. There is remarkably little historical inquiry into the significance of banks as major capitalist agents, the contributions of foreign agents to US-led financialisation and the corresponding mechanisms of US financial power. Beyond simply representing a gap of historical inquiry, I will show in Chapter 2 that this analytical problem stems from a limited understanding of the processes of financialisation as a qualitative change in the social relations of finance.

I agree with the sentiment that financialisation describes a large-scale transformation that has led to expanding and globalising financial markets, and that this process has deeply affected how banks, and anyone else for that matter, can navigate financial markets. But the outcome (expansion of markets) rarely sufficiently explains its driving mechanism.

Therefore, the chief aim of this book is to explain why and how that came to be, a question often assumed rather than explained. I ask *why* the expansion of global finance has been built predominantly around US financial practices, rather than acquiring any other potential characteristics. This is important because, firstly, history is unpredictable and complex. European banks have had many international relations and ambitions, financial globalisation could have gone a different way. This book thus examines why the banks adopted US financial practices, with all the difficulties involved, and, importantly, why those practices have had such a transformative impact.

Secondly, marketisation as a concept cannot account for the wide-reaching qualitative change of financialisation. In this spirit, I show that financial markets are nothing new in Germany. In Chapter 3, I use the example of the *Pfandbrief* (covered bond) to show that German housing finance has a long tradition of funding with market-based products, much more developed than the US market-based system. Chapter 4 reveals the German banks' global market-based practices on the Eurodollar markets in the 1960s and 1970s and argues that these were part and parcel of financing the post-WWII German political economy.

The significance of these early market-based practices for theorisations of financialisation is easy to miss if we continue to focus on German finance as a national bank-based system which transformed in response to external markets as a 'national variety'. Scholars rarely analyse how German banks have engaged with global financial markets *before* 1990s when their impact became no longer ignorable. As a result, political economy scholarship has largely overlooked both traditional domestic and early global market-based practices in their theorisations of banking and financialisation. This is because conceptualising US finance's impact as the rise of markets vis-à-vis social institutions makes it difficult to understand how specific market practices have affected banks differently and how, consequently, banks act *in* financial markets. As this book will show, rather than being bulwarks against markets, banks have historically attempted to use markets for their own ends.

How about recent analysis of banking since the GFC? While German banks' have been sidelined historically, scholarship since the GFC have investigated the interconnectedness of US and European balance sheets to decipher the outcomes of the Americanisation of finance. And yet, while the US and European banks' responsibility for the GFC is much debated, most political economy accounts rarely move beyond the banks' investment into speculative sub-prime mortgage-backed securities