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Crises lay bare the nature of political systems supporting financial markets. When they are not contained and managed, they break those systems apart. When they are successfully resolved, most people can forget about the politics and get back to business. To highlight an analytical theme that stretches from Karl Marx to Susan Strange, financial crises are always symptoms of deeper contradictions. The politics that most of us can try to ignore most of the time is all about managing those contradictions.

Amartya Sen famously drew attention to the most fundamental of such contradictions today: integrative pressures from global economic and scientific transformation on the one hand, and rapidly rising expectations of individual and collective autonomy on the other (Sen, 1999). This article focuses on the new politics of coping with that tension as it manifests itself in contemporary financial markets. States are challenged to manage financial emergencies involving intermediaries with very dense cross-border networks. Last-resort lending, and especially last-resort investing, operations become more complex. Increasingly, they involve coordinating the fiscal capacities of states. Truly global markets with any chance of enduring can only exist in a world where fiscal autonomy is reliably transcended. Thus far in the global crisis that began in the summer of 2007, leading states appear implicitly to be acknowledging that reality.

Historical Context

For a brief moment after 1919, after silence finally fell on the killing fields of Europe, it seemed that a League of Nations based on the fundamental principle of solidarity just might address problems capable of destabilizing the international system once again. In a signal case, officials of the League achieved surprising success in 1922 by assembling a support package for a financially troubled Austria. Even though the major powers of Europe were unwilling directly to assist Austria, they did in the end acquiesce in an innovative operation championed by League staff. A decade later, however, Austria was again in financial distress, and this time the League and an emergency committee of central bankers convened at Basel by the Bank for International Settlements proved incapable of stopping a general market collapse that began in Austria. The head of the League's Financial Section, Arthur Salter, later recorded the key events.

> In the early summer of 1931 a director of the Credit-Anstalt of Vienna asked that its assets be revalued. . . . The financial institution most closely associated with the industrial life of Austria was revealed as insolvent. . . . The Austrian state was at once involved, because the government felt it must give its guarantee to prevent a run . . . This in turn had grave reactions on the budget and currency. . . . The consequences of the visible cracking of the structure in Austria extended rapidly over a much wider area. The world's balance of payments had for some years been maintained only by the constant renewal of large short-term advances which were liable to be called in at the first shock of confidence. . . . A run on Germany began. . . . A prime ministers' conference was called in London; and the bankers who had made the principal short-term advances to Germany made a stand-still arrangement [to February 1932]. . . . Germany's situation was relieved for the moment but obviously needed more radical action than could be immediately improvised and a strong Committee [of central bankers] at Basel examined the general position of her foreign obligations (Salter, 1932, pp. 42-44; also Salter, 1961).

Unfortunately, "examining"—surveillance we would call it today—proved insufficient. The work of this first Basel Committee ended in complete failure. The following catastrophic decade witnessed the coincidence and global propagation of banking and currency crises (Bordo and Eichengreen, 2002; Eichengreen, 2003; James, 2002; Temin, 1991), and eventually human misery and bloodshed on a scale never seen before.

In the aftermath of the Second World War, efforts by the United States and its victorious allies to ensure their own internal financial stability did succeed in reducing the incidence of banking crises (Pauly, 2008a). After 1973, when the Bretton Woods pegged-exchange-rate system broke down and the scale and speed of international capital movements began increasing dramatically, banking crises once again became a fact of international economic life. When they finally gave up on the post-war system of pegged exchange rates in the early 1970s, leading states exhibited in their policy practice if not always in their policy pronouncements their view that more open capital markets were both desirable and inherently fragile. They also exhibited their unwillingness to merge their regulatory powers together to provide a firm political foundation for those markets. Of course, capital markets are still not completely open anywhere. Despite tremendous growth in the scale of foreign asset holdings by direct as well as portfolio investors, and despite a vast expansion in the overseas operations of banks and other intermediaries, evidence remains of a home bias, especially but not only in contemporary equity markets. By most estimates, net international capital flows before the financial crises of the late 1990s did not yet exceed those characteristic of global markets in the pre-1914 period (Obstfeld and Taylor, 2004; Isard, 2005). Nevertheless, after a remarkably brief pauses occasioned by crises and at least until market turbulence of 2007-8, the broadening expansion of international capital flows has always resumed and their home bias has slowly been eroding.

The contemporary emergence of global finance, or ever more open national and regional markets, is hardly the story of the inexorable progress of liberal principles or the compelling logic of individualism. It begins instead in the late eighteenth century as competitive and insecure states confronted the necessity of constituting nations. Nationalism gradually succeeded in replacing the dynastic and religious foundations of claims to political legitimacy, first in Britain, then in the United States, and then in France. As it did so, a series of remarkable technological innovations disrupted traditional solutions to the classic economic problem of scarce resources and unlimited wants. Central to the legitimation contests that took apart old empires, reorganized dysfunctional polities, and gave us the modern national state was the struggle to control finance. This simple point, of course, encapsulates diverse, sometimes bloody, and always venal case histories (Kindleberger, 1986; Minsky, 1986; Goodhart, 1988; Strange, 1988; Helleiner, 1994; Coleman, 1996; Germain, 1997; Wray, 1998; and Seabrooke, 2006). In the obviously successful cases, however, the growth-enhancing nationalism of competition in open markets prevailed over the depressive nationalism of market closure.

Despite frequent cosmopolitan claims, the architects of modern financial markets typically focused on local interests. The markets that had a global dimension in the pre-1914 period were linked by the interests and ideological foundations of empires built around the English, French and Dutch nations. Their analogues in the late twentieth century mainly connected financial centers like New York, London, and Tokyo, but their heavy reliance on the US dollar and their support of multinational corporate investment mainly emanating from the United States suggested something similar. By then, however, parochial financial policies within both the United States and Europe were giving way to the logic of federalism, certainly in wholesale markets. In principle, this offered a model for future regulatory architecture at both regional and global levels, for federalist solutions accommodated diverse nationalisms and did not necessarily imply complete convergence. Even in federal contexts, however, the principal raison d'être for more open and competitive financial markets was to facilitate economic growth and prosperity sufficient to sustain the claim of authority inhering in polities that were certainly more complex but not entirely dissimilar from their predecessors (Friedman, 2005; Greenfeld, 2003; and Pickell and Helleiner, 2005). The essential idea that such markets both rested on and reinforced the legitimacy of power, however constituted, was decisively tested around the world between 1929 and 1933. Going through a similar experience today is precisely what national and, in Europe, nascent regional overseers were so desperately trying to avoid in 2007 and 2008.

The truncation of international capital flows in the 1930s taught a hard lesson (Kindleberger, 1978; Kindleberger and Laffargue, 1982). The same lesson had been taught just as painfully in the earlier histories of large federalizing states. Integrating financial markets necessitated deepening cooperation among regulators, and in the extreme, the scaling of regulatory authority to the size of the market. The passionate advocates of "free banking" notwithstanding, financial markets everywhere are regulated. In most leading industrial states, the development of national central banks reflected long political battles that ended with regulation moving to encompass the scale of dominant financial institutions. When the possible failure of such institutions poses larger threats, both economic and political, the state has an interest in intervening to stabilize and reorder markets. The experience of actual crises ensured that this interest congealed into expectation and even obligation. Mitigating systemic risk required recourse to the public purse. This spawned 'moral hazard,' the temptation to take excessive risks financiers undeniably face when they believe they can count on governmental guarantees. Moral hazard, in turn, made necessary official supervision, which itself depends upon the ultimate power to expropriate and, if necessary, liquidate problematic institutions in an orderly manner to prevent entire markets from collapsing. For this reason, central bankers, financial supervisors, finance ministers, and, in democracies, legislatures are inevitably locked into a delicate, increasingly global, and intricate relationship.

Crisis and control in integrating markets

In the years following 1945, capital mobility was limited and national banking systems were tightly regulated and insured by "home countries." The instability of the currency system and the intrinsically related political pressures undermining the policy intention to restrict international capital movements finally ended this era. With exchange rates among most of the world's major currencies now flexible and capital flowing more freely across national borders, the stage was set for the first great banking crisis of the new era. In 1974, the failure of a German bank, Bankhaus I. D. Herstatt, to honour its foreign exchange contracts had knock-on effects globally, which ultimately even caused the Franklin National Bank of New York to fail as well (Spero, 1980). With the assistance of the staff of the Bank for International Settlements, but actually led by central bankers from the United Kingdom and the United States, bank supervisors subsequently initiated regular consultations on the appropriate division of responsibilities between the home and host states of internationally engaged financial institutions.

Finance ministers and legislators became seriously interested in the dialogue of the Basel Committee on Banking Supervision after the 1982 developing-country debt crisis threatened banks at the core of national payments systems as well as smaller local banks that had ventured into international banking by taking pieces of syndicated loans (Wood, 2005). Not unlike the staff of the League of Nations in the 1920s, the IMF played a key role in that crisis but as the catalyst of inter-state collaboration, not as the lender-of-last-resort. Certainly with regard to the main debtor state like Mexico, everyone knew that the US government would have to play exactly that role if US banks, among others, were not to fail.

At the extremes of the analytical and policy debates that followed the 1982 debt crisis, it was commonplace to depict international financial markets either as poised on the brink of integration so intense that a global financial regulator backed by last-resort lending capability was now required, or so fragile that they required careful dis-integration to protect national economies. In the world of actual policy, finance ministers, central bankers, and legislators encouraged the development of an awkward but politically feasible international supervisory regime. The core principle was home-country control of nationally regulated financial intermediaries, still mainly banks, but the regime also included certain cross-national requirements both to safeguard now-interdependent payments systems and to "level the competitive playing field." These included minimum capital requirements, the mutual recognition of other still-diverse national standards and regulatory practices, and intensified cooperation through a widening set of intergovernmental organizations and central banking networks (Kapstein, 1998). Although they met with skepticism from pragmatic policymakers, far-sighted analysts were quick to see such an outcome as tentative and to venture the notion that it presaged the inevitable development of a global regulator (Alexander, Dhumale, and Eatwell, 2006).

The rapid expansion in cross-border capital flows after the 1980s meant that policy makers were asking themselves a basic question: when real economic growth rates were sought in excess of those capable of being generated by domestic savings, how were the benefits and costs of financial openness to be distributed (Tirole, 2002)? In principle, inward flows of privately owned capital make it possible for real economies to grow more rapidly than if they relied solely on domestic resources. In practice, those flows are often volatile and they will respond rapidly to crises, whether homegrown or not. The extra costs associated with crisis-induced capital outflows can undermine real economies and disrupt underlying political and social orders. Those costs can be huge, their deeper effects insidious and lingering.

Nevertheless, by the 1980s it had become clear that states constructing the global economy had collectively moved away from one set of policy trade-offs and toward another. Immediately after the Second World War, they had sought to reconcile their newfound desire for exchange-rate stability with their interest in maintaining independent monetary policies; they therefore had to tolerate limits on inward and outward capital flows. Now, capital mobility and monetary autonomy were privileged, and they were willing to tolerate floating exchange rates as well as a degree of volatility in their expanding financial markets. Despite a clear trend toward capital market liberalization, however, no binding international treaty analogous to that governing trade flows has emerged to codify an underlying political understanding on the trade-offs implied by financial openness (Abdelal, 2007). The promoters of liberalization apparently hoped private and still mainly national markets on their own would provide adequate financing for both adjustment and development if countries simply pursued sound macro-economic policies. As the decade of the 1990s progressed, that very idea became contestable.

The Asian financial crises of the late 1990s highlighted the rising tensions between economic logic and political reality. Malaysia temporarily reinstated capital controls, Chile experimented with sophisticated measures to restrain the inflow of speculative capital, and new incentives were provided for countries with surpluses in their trading accounts to hoard foreign exchange reserves. The threat to the integrative impulse at the core of the post-1945 political order was obvious. Even when calm returned and the broad movement toward capital market openness resumed, governments now refused unambiguously to embrace the principle that capital had an inviolable legal right to cross borders. They also continued to demonstrate an evident reluctance to designate an international overseer for markets more tightly linked together.

In short, the architects of the global economy, now including not only advanced industrial states but also China, India, Mexico, Russia, Brazil, and other rising powers were unwilling to lodge ultimate political authority at the level where it logically belonged in a world of freely flowing capital. No international agency was authorized to regulate or supervise international capital movements or the mix of public and private intermediaries through which they occurred -- not the International Monetary Fund, not the World Bank, and not the Bank for International Settlements. The essential fact here is none had access to the resources necessary to stem a full-blown global crisis. None could serve as lender-of-last resort, except in limited cases. Most significantly, none could act as investor-of-last resort in crucial financial intermediaries. National authorities instead opted to allow the financial institutions they themselves continued to license and supervise to expand their international operations. Their shared belief, or rationalization, was that sound macroeconomic policies would more or less automatically stabilize deepening cross-border markets and that emergencies could be prevented or managed by national regulators collaborating informally to the extent necessary and utilizing, as they themselves saw fit, nationally controlled foreign exchange reserves (Bryant, 2003; Kapstein, 2006; Woods, 2006).

In 2006, the “Basel II agreement” negotiated by the leading industrial states allowed internationally active banks to bring supposedly sophisticated risk-management techniques into the calculation of capital requirements. In contrast to the straightforward calculations of Basel I, capital requirements were calibrated with the risk profiles of different kinds of banking assets and with diverse portfolio choices. For the largest banks, heavy reliance was now placed on internal value-at-risk models maintained by the banks themselves. Under the terms of Basel II, smaller banks and banks not based in advanced industrial states typically faced the less flexible capital requirements of Basel I. The fact that this seemed to provide a new source of competitive advantage for the largest money-center banks was not the only controversy engendered by the new accord, and work immediately began on ‘Basel III’. It accelerated as Basel II came to be associated with the dismal failure of market discipline in 2007 and 2008.

Along with the stabilizing “pillar” of minimum capital requirements, the Basel II agreement stressed the importance of two additional pillars: adequate supervisory review and “market discipline.” To improve the latter, the agreement recommended various mechanisms for increasing the disclosure of information by banks, information that would allow credit rating agencies and others to render judgments on their ability to meet obligations. Although not yet a requirement, commentary surrounding Basel II certainly broached the related and more specific idea that banks should be forced to issue subordinated debt, which would be subject to continuous repricing in the markets and provide a signal to supervisors when early intervention might be required (Kaufman, 2002).

Basel II was really only beginning formally to come into play when the rolling crises of 2007-8 spread out from the US housing market. Its central elements, however, immediately came under critical scrutiny. Its self-regulatory aspirations were soon discredited, its capital rules proved inadequate, and its inability to address liquidity problems in complex global markets for new financial instruments immediately became clear. But an urgent issue at the core of the crises was the continuing mismatch between market scope (global) and ultimate regulatory authority (national). As investment banks failed or rapidly transformed themselves into commercial banks with access to emergency liquidity support from national central banks, as insurance companies required governmental bailouts, as hedge funds collapsed—national finance ministries returned to center stage. Only they had access to the kinds of fiscal resources required for final, last-line emergency defenses of institutions deemed too crucial to fail. More or less "independent" central banks could serve their traditional roles as lenders-of-last-resort, but only national treasuries could make last-ditch investments in troubled but essential financial institutions. *In extremis*, only they could nationalize them.

It would be facile, however, to conclude that by reviving this function the clock had simply been turned back to 1933. If states had once constructed a workable regulatory regime based on the principle of home-country control of banks continuing to expand their cross-border businesses, such a notion was pushed past its limits in 2007 and 2008. The first draft of the US bailout plan in the fall of 2008 made US taxpayer funds available to "American" banks only. That changed within 24 hours, after the US Treasury was reminded that 25% of the US banking system was now controlled by "foreign" intermediaries. But bailouts in the United States and elsewhere could also not be limited to traditional banks, since many types of investment and financing vehicles had been permitted over time to take on various bank-like functions.

To prevent emergencies from spinning completely out of control, leading states, and rising states with high foreign exchange reserve balances, in fact collaborated with one another. To be sure, there were missteps. In Ireland and Iceland, for example, panicked decision-makers tried first to ring-fence national institutions and limit the scope of their liabilities to foreign depositors and investors. But the remarkable phenomenon was that the states at the core of the system collaborated intensely in their policy responses and also exerted enormous pressures on others to go along. An inelegant pastiche of burden-sharing measures was put in place and throughout 2008 one could observe a continuing shared commitment to the idea of open markets, to the regulatory principle of reciprocal national treatment, and to the practice of better supervision. Solidarity could certainly break down in the future, but in 2008 it looked surprisingly robust.

What leading states did not do was tip decisively in the direction of deep political innovation, which one might have imagined by this time in history to have entailed supranational regulation and supervision. Are the seeds now sown for such a move? Perhaps it was in Europe, where the idea remained intensely controversial but was at least up for explicit discussion. In short, it took the form of proposals for reliable *ex ante* agreements on burden sharing in the context of cross-border financial emergencies (Goodhart and Schoenmaker 2006). Such proposals begged the questions, for example, of whether the constituent members of the monetary union in Europe were fundamentally obliged to assist one another in an emergency, whether they could trust one another to minimize financial losses, whether they shared the same risk cultures, and whether they were guided by similar regulatory approaches. In the event, all that actually proved possible thus far were *ad hoc* understandings reluctantly reached at the moment of crisis itself. Not entirely dissimilar processes have been evident throughout modern European history.

In fact, a generalized *ex post* style of policy coordination worked reasonably effectively within a highly decentralized Germany after 1945 (for more detail, see Pauly, 2008b). It is widely recognized to have opened the political space for maneuver (and for complex bargaining) across various issues between post-war West Germany and its partners in the European Union. Although Germany appeared to take the most truculent positions in the bailouts and fiscal experiments undertaken in response to financial emergencies within Europe during 2007 and 2008, it would be a mistake to see its position as anti-integrationist. It simply sought as usual to reduce the scale of its ultimate financial liabilities in the context of a continuing union. To have expected open-ended *ex ante* agreements on burden sharing in a now-enlarged and variegated union would presume faster transformation in deep political and ideological structures than is yet realistic. Nevertheless, Germany did not move away from its longer term interests in promoting more integrated and more resilient European capital markets. This result would suggest looking more at what it does than what it says on the complexities of preventing and managing future financial crises. The same goes for its key partners in the broader European Union, especially France and the United Kingdom, which both demonstrated considerable pragmatism when markets seemed most fragile.

Nothing is certain, of course, and catastrophic events could certainly lie ahead. But at the opening of 2009, deeper political cooperation looked hard-wired into European and in wider global markets (Grande and Pauly, 2005). States had apparently resigned themselves collectively to mitigating and resolving cross-border emergencies. Despite the now-evident risks, they took few serious measures to disentangle themselves from financial networks they themselves had spent a half century constructing. Collaborative working groups converged instead around ideas like better supervision of large, complex financial institutions, perhaps through colleges of supervisors.

Why the hopefulness thereby implied, given the undeniable historical fact that even hard wires can be cut if the wire-cutter is big enough? The answer is because again financial crisis management is ultimately all about fiscal burden-sharing, and in 2007 and 2008, we witnessed states collectively passing a difficult test in this regard. To be sure, the process was not elegant. From Iceland to Great Britain to the Benelux countries to Germany and the newer members of the European Union, decisions on bailouts and on the division of associated costs were always made grudgingly. In the US, they were arguably made ineptly and therefore entailed even larger future costs. Across all cases where cross-border effects were plausible, "cooperation" entailed the joint deployment of state power and the acquiescence of taxpayers fearful of the consequences if that deployment did not occur. (The two US House of Representatives votes in the autumn of 2008 on a staggering $700 billion bailout package—the first against and the second reluctantly for the package, together with convergent actions elsewhere around the same time, exemplified the process with stunning clarity.) At the start of 2009, nevertheless, states still appeared unwilling to contemplate either a collective return to an international regime of pegged exchange rates or permanent and enforceable limits on international capital movements. They instead joined in effectively coordinated taxpayer-funded financial bailouts, the scope and implications of which clearly did not stop at the water's edge.

Financial globalization, fiscal autonomy, and the future of political authority

In *The Sovereign State and its Competitors,* Hendrik Spruyt (1994) argued quite convincingly that there was nothing inevitable about the nation-state form of political authority. But like Hayek, Braudel and other seminal thinkers before him, he also argued that there was nothing particularly voluntaristic about it either. It emerged instead from a series of unintended consequences to policy decisions taken in Europe during the 14th and 15th centuries. It solved certain collective action problems—mainly fiscal and military in nature--better than its competitors, city-leagues and city-states, and it inherited by accident certain distributive functions that were once managed within imperial formations. Then certain nation-states began joining together in concert, again to address whatever problems happened to confront them at the time. This co-operation, in turn, effectively constructed an inter-state system, which ultimately helped drive out of existence alternative forms of polity. Note that nothing in this convincing argument suggested that the state form itself was immutable. Indeed, quite the contrary.

In this regard, what have we learned thus far from the financial crises that began spreading like a virus in the summer of 2007? We have learned that the nation-state form is resilient, that when they choose to do so they can design still policies and implement policies that contain financial crises, and that key policymakers charged with these tasks have learned one lesson above all others. It is the lesson of 1931. Never let your clearing banks and your national payments system fail. Let your central banks undertake active liquidity support operations, even for investment banks and insurance companies whose potential failures might cascade into core payments systems. If this is not enough, then re-capitalize core banks with national fiscal resources, and nationalize them if necessary. The lesson was, however, now complemented by another, borne of pragmatic necessity and not perfectly or elegantly executed. Act in concert with other states to the extent required by the new complexity of integrating markets. In practice, since there existed no single fiscal account across even the European states enveloped in monetary union, this need meant *ad hoc*, protracted, difficult, and deliberately opaque negotiations on fiscal burden-sharing to support large, complex financial institutions with extensive cross-border operations (Pauly, 2008b). Might this outcome prefigure a new chapter in the ceding of policy autonomy and the migration and reformation of political authority?

Although experimentation with new forms of polity may now effectively be underway, grudging acknowledgment is limited to Europe in the contemporary period. Even there, however, the fiscal autonomy even of the member-states of European monetary union remains jealously guarded. Talk of federalism, and even the hint of confederation in fiscal terms remains suppressed. But the need to find a new balance between the rising pressures of financial integration and traditional demands for maximum feasible degrees of fiscal autonomy cannot be ignored, either in Europe or globally. In practice, contemporary political exigencies suggest both an implicit commitment to policy coordination and burden sharing and an explicit denial of the same. No wonder then that the key institutional feature of nascent efforts to create new governing mechanisms for financial markets at the system level is *increasing complexity*.

The building up and breaking down of key institutions for coordinating the actions of states is certainly part of the long story of internationalization, despite the often overly simplified functionalist logic and assumption of inevitability associated with much related analysis. In this regard, one thinks again of the League of Nations, of monetary unions, and of political federations that have come and gone. Even in cases where reform has actually been achieved, erosion and constant adaptation seem more common than stability. The trend is clearly evident in the monetary and financial institutions established by the victorious allies after World War II. The most recent traumas associated with financial globalization promise deeper and more profound changes in the relationships constitutive of institutions needed for authoritative social ordering.

As in the past, there is nothing inevitable about the creation of structures to sustain what is best in those relationships or to ameliorate their negative consequences. Reshaping old institutions and fostering new ones require basic agreement on principles and norms and the willingness of leaders and followers to make trade-offs among those that are contradictory. The transformative processes of globalization do not make it any easier to achieve such agreements or engineer such tradeoffs. In fact, by making increasingly visible the increasing multi-polarity of the present world system, they render more and more inconceivable a world where institutions are designed, adapted and led by the leaders of the post-1945 system alone. In such a context, the multi-faceted concept of autonomy and the essential question of whose autonomy is most immediately accommodated become ever more important.

The world's most prosperous societies have to the present point in time managed to benefit from economies of scale and scope without bearing an unacceptable loss in autonomy, defined in either collective and individual terms. Although there is no single model of a perfectly balanced society, the various societies comprising the advanced industrial world today, along with growing parts of the emerging industrial world, exemplify ever more urgent struggles to attain and maintain a delicate balance. They seek stable points of equilibrium among the prosperity produced by integrated markets, the legitimate social ordering created by a sense of collective belonging, and the fulfillment associated with the freedom both to escape wants and to make choices. The important point for present purposes, however, is that even in those lucky countries cross-border financial disturbances increasingly disrupt that stability. Ever more forcefully, they call for decisive choices between turning back from economic integration or acknowledging the necessity of serious burden sharing across traditional borders.

Where should we look for a positive response? The most obvious places are inside the post-1945 political institutions constructed precisely to facilitate policy coordination. We should see adaptation occurring in the successor agencies to the League of Nations--IMF, the World Bank, the UN, and the Bank for International Settlements. We should also see serious reform occurring in the institutions designed to promote regional integration in Europe, and lately East Asia and North America. We might expect to see a proliferation of new formal and informal institutions designed actually to resolve pressing policy challenges and not simply to talk about them. Most crucially in the policy arena covered in this article, we should see externally-oriented adjustments in traditional domestically-focused practices within central banks, finance ministries, legislative committees, and national courts. Here is a rich research agenda. The mistake would be to close it off by taking too seriously the pronouncements of political leaders that they would never compromise the fiscal autonomy of their states or the narrow interests of national taxpayers.

Conclusion

The fragility of integrating financial markets in a system of dispersed political power became increasingly obvious in recent decades. In the cascading crises that began in the summer of 2007, risk management within large financial institutions reached obvious limits. Central banks and finance ministries intervened repeatedly to bolster confidence in markets that now spanned national borders in more complex and intimate ways. Some movement back from global to national occurred as market players and policy makers sought to minimize future losses. But behind the scenes, collaborative crisis management became the compelling order of the day. Central banks coordinated their liquidity operations to safeguard money markets now deeply linked across national borders. Moreover, fiscal burden sharing implicitly occurred not so much through newly constituted regional or global funding mechanisms, but through effectively coordinated national interventions targeted at the local operations of national and international intermediaries. It might have been better, and certainly more elegant, if joint support operations had simply flowed from *ex ante* inter-state agreements on crisis management and resolution. Such agreements had even been proposed in the wake of previous crises, especially in Europe. But they have thus far proven to be politically infeasible. *Ad hoc* collaboration nevertheless did occur in 2007 and 2008, and that showed itself to be better than nothing. Certainly it signified a marked improvement over the experience of the 1930s, when states insisted on their collective autonomy in the face of stark systemic challenges.

When more open markets are calm, authoritative overseers, lenders-of-last-resort, and especially investors-of-last-resort fade into the background, where they certainly should but do not always quietly encourage improved risk management practices by intermediaries, investors, and savers. When globalizing markets are not so calm, their inherent fragility is exposed, and so too is the increasingly collaborative politics upon which they ultimately rest.

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