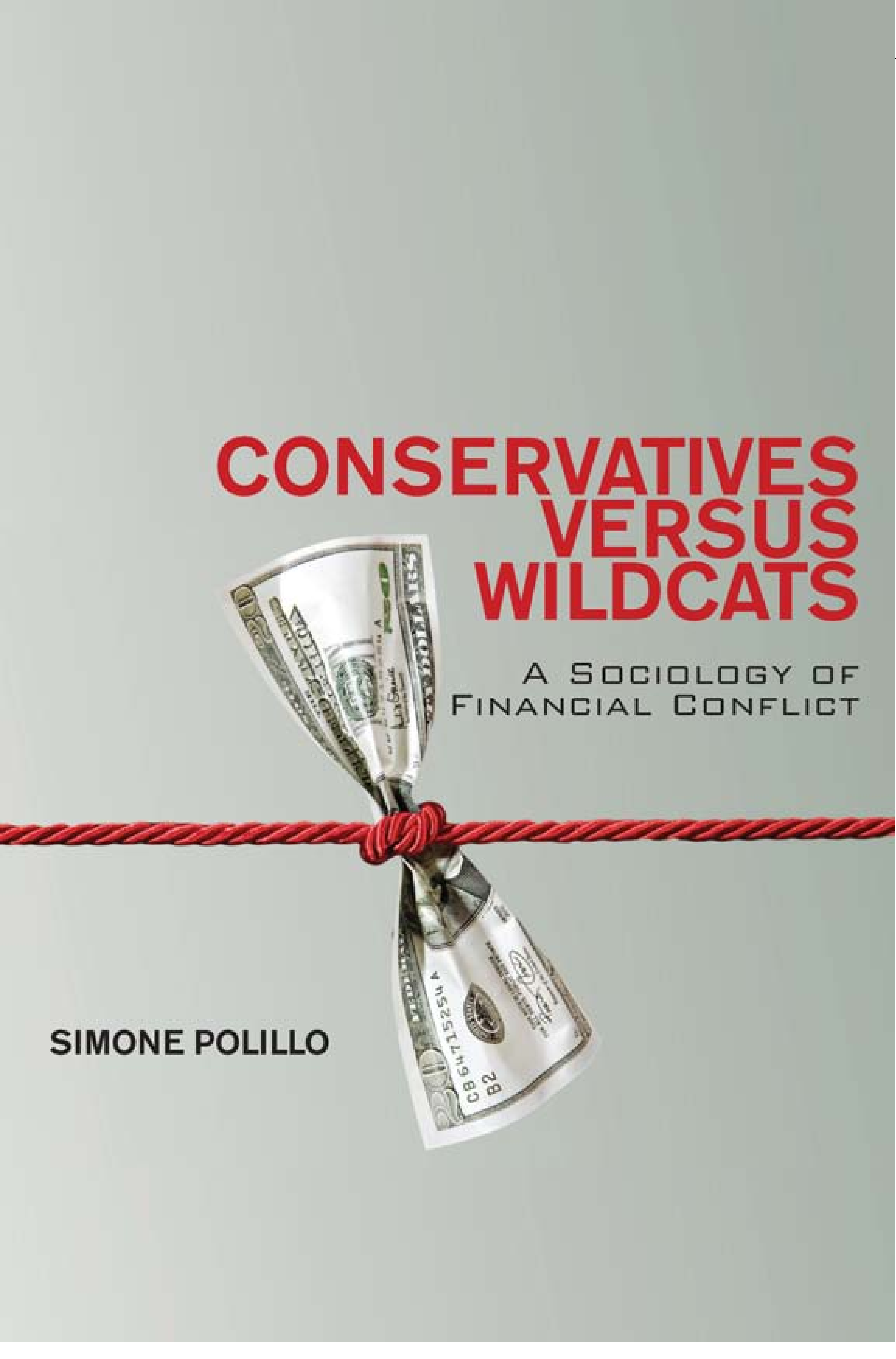
CONSERVATIVES VERSUS WILDCATS
A Sociology of Financial Conflict
SIMONE POLILLO

Conservatives Versus Wildcats

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Prologue

IN THE WAKE OF the ongoing financial crisis, academic and public opinion on the nature of finance has changed dramatically. Prior to the crisis, financial markets seemingly embodied all that was rational about capitalism. Finance was widely hailed as the most efficient and dynamic sector in the U.S., even the world, economy; financial innovators were praised for their talent and courage in spotting new opportunities for investment and generating new wealth; and increased access to financial services, especially in the market for mortgages, seemed to point the way toward a new capitalist utopia: the "ownership society," where wealth and financial security would finally be within reach of most. It was widely argued that freeing up markets, deregulating banks and financial transactions, and giving financial firms and their managers new incentives (and adequate remuneration) to innovate would unleash the full potential of rational capitalism.

When the financial crisis hit in 2007, only to explode on a larger scale in 2008, it injured society's trust in this ideology. Greenspan had complained about the irrational exuberance of financial markets as early as 1996. But in 2007 and 2008, for the first time in more than half a century, politicians and their economic advisers came face to face with the danger of this mindset on a large scale. Suddenly, they came to see finance as driven by speculative behavior, and the current crisis as a pathological outcome of this underlying foundation. Arguments about the irrationality of finance finally found serious intellectual footing in new theories emphasizing the emotional, even the temperamental, aspects of economic behavior in general, and financial behavior in particular. Rather than depicting rationality, finance unleashes “animal spirits.” Rather than a solution to inefficient allocation of resources, finance, especially unregulated finance, came to be understood as an integral part of our woes.

It would be difficult to exaggerate the magnitude of these changes in intellectual climate and public opinion. And yet, it would be deeply problematic to ignore what has *not* changed in the wake of the crisis. A major element of continuity in economic approaches to finance—an element that has proved to be remarkably resistant to change—is the tendency to take an individualistic approach—to argue that the individual rational actor (and his/her potential shortcomings) is the bedrock of economic processes. One of the problems that immediately results from accepting the individual as the basic unit of analysis is that economic approaches are then relegated to psychological explanations. Was this or that analyst rational or irrational in his or her financial behavior? This becomes the root question in order to explain why financial processes can unfold so smoothly for so long, to then be so quickly, and spectacularly, disrupted.

But when we look back in history from the distant future, we will not count this crisis as one of individual rationality. We will see it, I believe, as a crisis of collective behavior. This requires that we shift attention from individuals to *organized financial groups*. In this light, we can see that finance is about conflict, centered around turf wars and ideologies that play out on a quiet, buttoned-up battlefield such as Wall Street. And finance becomes stable only so long as warring factions of bankers and financiers lay down their arms and embrace *collective* arrangements that curtail their freedom to innovate. Understanding finance, in other words, means understanding in detail how these factions organize themselves and maneuver in order to gain control—until a systemic equilibrium is reached, only in time to be broken by a new battle. Revealing this storyline, its actors, and its influence is the main goal of this book. As we proceed, history will illustrate this perspective—reflecting this most recent crisis as the twenty-first-century version of an ongoing financial pattern, shining a distinctly different light on our current circumstances.

Conservatives Versus Wildcats

Introduction

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

Recognizing the scarcity and unreliability of information gives rise to our understanding of money, credit, and banking, whereby the central problems faced by financial providers are those of matching the demand for, and supply of, financing—of coordinating flows of financial resources and thus of decreasing opportunities for malfeasance while managing the potential effects of uncertainty. In this view, financial providers who specialize in assessing the credibility of a borrower's promises and who successfully hedge against future uncertainty allocate their resources better than do those who ignore problems associated with these gray areas. Success is measured in terms of how these providers alleviate potential asymmetries in information between people with viable business plans but no capital, and people with capital but no intent to invest it actively. By the same token, the value of credit and financial instruments is a reflection of the value of some underlying asset; the longer the duration of a financial relationship, the higher the risk. But financial instruments make this risk more manageable and, within the limits of probability, more predictable. In short, banks and other providers of financial services use different kinds of financial tools to match the credit needs of their customers. The art of banking, and more generally of finance, is the art of developing ways to make this match as effectively as possible, which leads to financial markets that run smoothly and efficiently.

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

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

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

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

From Money to Financial Instruments

Discussions of finance tend to take an idealized view of money: they argue, specifically, that the purpose of finance is to make qualitatively different assets commensurable, both with other assets and with comparable assets over time. Financial instruments are the medium in which this process of evaluation takes place: they assign assets a quantitative value, and devise rules that recalibrate it over time (Bryan and Rafferty 2007). Exchanges mediated by financial instruments constitute *forward markets* where "the buyer and seller enter into a contractual agreement today for payment and delivery at specific dates in the future" (Davidson 2002: 71). The problem with financial contracts is that they often lead to systematic mispricings—such as financial bubbles—in which the financial assessment of the value of an asset turns out to be plain wrong, or off the predicted value in ways large enough to make payment of the liability impossible (Minsky 1986; see Zuckerman 2012 for a review). The effectiveness of financial instruments is thus judged in terms of how well they reflect intrinsic value.

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

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

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

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

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

TABLE 0.1
Two Dimensions of Financial Conflict

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

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

Now compare the exclusivity and financial control of a hedge fund to those of a financial instrument, such as a credit line issued to a selected clientele. An exclusive credit card has restricted membership—the most exclusive ones are, in fact, by invitation only (Moyer 2007). In exchange for a hefty fee, an exclusive credit card grants the holder several perks, usually related to travel assistance and entertainment. The exclusive credit card, however, gives the holder no control over exchanges in financial markets. In fact, it is often celebrities who are invited to apply: their desirable social characteristics (reputation, fame, public exposure) are ideal ingredients for the creation of a prestigious circuit. By the same token, possession of an exclusive credit card is less prestigious than investing in a hedge fund, because situations in which the possession of an exclusive card commands prestige are, in essence, consumption experiences. Such experiences are crucial to the constitution of status groups sharing a similar lifestyle, as Weber recognized, but only outside of financial markets, in which they command no prestige. A credit card is thus high in exclusivity but low in control.

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

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

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

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

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

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

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

Capitalist Conflict

I take it to be one of the main lessons of Marx, Weber, and Schumpeter that capitalism is, by its very nature, a dynamic system; stability can only be temporary and can be ensured only through *organizational* means, which in turn generate conflict. Marx (especially 1921, 1909) emphasized that capitalism is characterized by a sequence of booms and busts, that it thus alternates between periods of prosperity and periods of deprivation, each caused by contradictory dynamics internal to capitalist development (class struggle), and each having tremendous implications for the distribution of economic and political power. But Marx did not have a theory of money and credit that recognized its autonomous properties and dynamics (Ingham 1984, 1996; Nitzan 1998). So he had little to say about the political aspects of finance. Weber, by contrast, argued that capitalism is based on a complex and fragile balance of power between the political authorities that uphold the law and protect private property, and the capitalist interests that accumulate wealth and power, with alliances between and within those groups giving further dynamism to the system (Weber 1978, 1981). The secret of capitalist dynamism is that it institutionalizes conflict, opening certain markets to competition, and forcing their incumbents to react to the challenge (see, esp., Collins 1980). Yet Weber's theory of money remained underdeveloped.[2] Finally, Schumpeter (1911, 1939, 1962) put the "gale of creative destruction," the relentless process of innovation, at the very foundation of economic development, highlighting the fact that the economic winners of one wave of innovation then struggle to protect their position through economic and social barriers—from patents to industrial espionage; but the innovative process inevitably makes those barriers obsolete over time. Schumpeter, however, like Weber, did not develop a full-fledged theory of money and banking, one that would match his theory of entrepreneurship (Schumpeter 1991; Swedberg 2003).

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

Schumpeter came close. He most explicitly recognized the centrality of the banking system to capitalism, and proposed the beginnings of a theory of the conflicts that take place within it. But he also held fast to an idealized view of the capitalist process in which bankers played only a functional role—as long as they were properly professionalized into acting as objective allocators of resources and in which financial speculation was nothing but an aberration, brought about by actors with no appropriate training in matters financial or with explicitly subversive purposes in mind. Schumpeter did not recognize that, because bankers play an organizational role within capitalism, struggles among bankers cannot result solely from professional or moral failings on the part of individual bankers.

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

This book develops a conflict-centered perspective in the context of finance to contribute to this emergent discussion. It focuses on how bankers commit to and inhabit common identities as a collective; how bankers control the form, direction, and use of credit through those identities; and finally, how bankers use these identities to exclude other actors from engaging in financial activities. Since bankers, unlike other economic actors, specialize in niche aspects of financial activity, their role in the capitalist process is unique. To be sure, any economic group that benefits from the collective appropriation of a resource will be faced with the challenge of creating commitments to a shared identity, so as to forestall self-interested behavior that might undermine the cohesion of the group. But bankers, I will argue, are specialists in the activity of producing collective financial identities, and linking those to financial instruments, which they then police by restricting their circulation. As each aspect of financial activity generates conformity, so too does it produce resistance and opposition. Bankers are always faced with the pressure to conform to their shared identities; therefore, they are also always faced with the option to rail against existing understandings about how credit should be used and to disregard the call to enforce existing exclusions. Bankers are, in short, highly vulnerable to formidable collective action dilemmas, and an understanding of banking is not possible without an analysis of the challenges aimed at altering the financial status quo, and of the mechanisms that attenuate such challenges.

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

Importantly, this basic opposition between these two ways of doing business translate into two opposite moral claims about capitalism. Wildcats contest the financial elitism of conservative bankers; in turn, they propose a vision of financial democracy. Conservative bankers reject the speculations of the wildcats as irresponsible: only their own (in their eyes) better strategy ensures financial stability. The predominance of either moral claim, I add, serves not only to justify capitalism (Boltanski and Thévenot 2006). These assertions also make possible the appropriation of resources on which the power of financial elites, especially dominant and entrenched ones, depends; alternatively, they justify full-scale attacks on the foundations of the financial status quo. So bankers' claims that they submit to time-honored traditions in their allocation of credit, to standards of prudence in their assessment of the creditworthiness of their customers, and to strict and objective criteria in their distribution of financial resources have all served as much to create professional cohesion and unity of intent among bankers as to regulate transactions with outsiders. Sound banking, in short, is the collective identity that dominant financial elites develop so as to reproduce their cohesion and bolster their collective power. But depending on the balance of power within banking, as well as in the political system in which banking takes place, claims to sound banking are vulnerable to accusations that they are too strict, traditional, and conservative; too prudent and austere; too restrictive and backward-looking. Since a weakening of the collective commitment to sound banking on the part of conservative bankers, as Schumpeter recognized, would eventually mark their demise, conservative bankers will fight such challenges. Finance, then, is about organized conflict, and the ideologies that are mobilized in the context of conflict are weapons that banking factions mobilize to preserve, or change, the financial status quo.

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

When we view the financial field as conflictual, we see that stability is a fragile and temporary political accomplishment, leading to new questions about how changes in the larger structure of political opportunities affect the balance of power within finance. In fact, the collective identities that are organized and mobilized against one another within the financial field—with sound banking as the ideology that commits bankers to exclusion and stability, and wildcat banking as the ideology that commits them to inclusion and innovation—may clash with the ideologies of political movements outside finance, thus creating the possibility of larger conflicts, as well as the space for potential alliances. Allow me to single out one important structural source of political conflict to illustrate this point: the opposition between the *exclusionary* strategy of conservative bankers and the *inclusive* logic of democratic regimes.

Financial Conflict and Democracy

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

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

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