Crashing through the Glass Ceiling:

Neoliberal Hegemony and the Repeal of the Glass-Steagall Act

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STATEMENT OF ORIGINALITY

I hereby declare that the submission titled 'Crashing through the Glass Ceiling: Neoliberal Hegemony and the Repeal of the Glass-Steagall Act' is my own work and to the best of my knowledge it contains no materials previously published or written by another person, or substantial proportions of material which have been accepted for the award of any other degree at Macquarie University or any other educational institution, except where due acknowledgement is made in the thesis.

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ABSTRACT

This paper explores whether the repeal of the Glass-Steagall Act can be characterized as demonstrating a new form of Gramsci’s theory of hegemony. Since this theory has been popular in explaining neoliberalism, with the hypotheses that the Glass-Steagall Act was a part of the continuous process of the neoliberal hegemony, I used the theory to explain the long and slow demise of the Glass-Steagall Act. I employed Antonio Gramsci's theory of hegemony by paying particular attention to the relevance of intellectuals. I tested the theory against the long erosion of the depression-era banking act that had separated commercial banks and investment banks in the US. Since hegemony is a long and continuous process, my analysis is structured in such a way that made it suitable to the study of the erosion of the Glass-Steagall Act over the long period. The study covers its enactment and provisions, its contradiction with the financialization process, its repeal efforts and reinforcement for its repeal by the intellectuals from the academic sector and from within the political system in the US. The results demonstrate that Gramsci’s notion of hegemony explains the gradual erosion of the Act. Moreover, it demonstrates that the repeal of the Glass-Steagall Act is part of the long and continuous neoliberal process.

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Chapter 1-Introduction

Scholars from multiple disciplines have been trying to explain the logic behind the global financial system that eventually led to the Global Financial Crisis. Though there are arguments presented from all sides, one particular piece of legislation that has become a regular focus of scholars is the Glass-Steagall Act in the US. One group argues that the repeal of the Act was one of the reasons for the crisis, and another group argues that the repeal of the Glass-Steagall Act minimized the consequences of the crisis (Crawford, 2011, p. 130). Therefore, in order to analyze either side of the argument, we need to look at the repeal of the Act more closely.

In contrast to the political climate at the time when President Franklin D. Roosevelt signed the bill that separated commercial banks and investment banks into law in 1933, President Bill Clinton in his speech at the time of signing its repeal had said,

> It is true that the Glass-Steagall law is no longer appropriate for the economy in which we live…the world is very different… So I think you should all be exceedingly proud of yourselves, including being proud of your differences and how you tried to reconcile them. Over the past seven years, we have tried to modernize the economy. And today what we are doing is modernizing the financial services industry, tearing down these antiquated laws and granting banks significant new authority… (Press Center, 1999)

It is very important to note that legislation as popular as the Glass-Steagall Act at the time of its enactment was deemed inappropriate by the end of 1999. However, not everyone had joined the jubilation. Senator Byron L Dorgan who was very skeptical about the repeal of the Act, warned, “I think we will look back in 10 years’ time and say we should not have done this, but we did because we forgot the lessons of the past, and that that which is true in the 1930s is true in 2010,” (Labaton, 1999). As he had warned, the crisis wrecked the US economy in 2008. The arguments made by Clinton in his speech at the time of repeal did not hold very long. Nonetheless, there still is a debate if the repeal of the Glass-Steagall Act contributed to the recent financial crisis.

Much of the literature examines the repeal of the Act as an explanation for the global recession of 2008. Nevertheless, this nexus can be directly linked with the process of neoliberalism. If we take a broader perspective on the reasons for the crisis, neoliberalism is pervasive in the literature. Neoliberalism, Beder (2009, p. 3) writes, "advocated the replacement of government functions and services with those provided by private profit-seeking firms operating in the market…; deregulation of labour and financial markets; deregulation of business activities; free trade; and smaller government through reduced taxes, spending and regulation". Neoliberalism arose out of the economic and financial turmoil in the 1970s and early 1980s replacing the Keynesian economic model. The financial regulation that was imposed around mid 1930s was slowly removed (Crotty, 2009, p. 564). Crotty (2009, p. 564) writes, "radical deregulation pushed by financial institutions and justified by efficient financial market theory… facilitated the transition to a new globally integrated deregulated neoliberal capitalism". Jones (2012, p. 340) writes "the deregulation of financial markets stripped away the safeguards that had progressively been put in place since the New Deal in the US, especially the separation between retail and investment banking that was enshrined in the US Glass-Steagall act". Duménil and Lévy (2005) argue that one of the major roles of neoliberalism was the restoration of the income and wealth of the upper fractions of the owners of capital, whose property is expressed in the holding of securities, such as shares, bonds or bills. Campbell (2005) states that these financial acts and regulations that separated investment from commercial banking limited the hegemony of financial capital. Therefore, it was necessary for them to do away with the regulations that controlled these assets. In particular, the Glass-Steagall Act in the U.S. was one of these regulations that were regular focus of these neoliberal advocates for the repeal. Therefore, it is within a broader framework of neoliberalism that the repeal of the Glass-Steagall Act can be studied and analyzed. The ideal way to look at the repeal of the Act would be to look it as a process of neoliberal hegemonic agenda.

Neoliberalism is a new common sense of our times. It is a dominant ideology defined by a highly efficient and self-correcting market (O'Brien & Williams, 2010). Neoliberalism as the dominant ideology is today taken for granted, and generally accepted as given by right and left alike (Hickel, 2012). Nevertheless, neoliberalism was not the common sense until Thatcher and Reagan were influenced by neoliberal proponents to implement the neoliberal ideology after 1979 in the UK and the US respectively (Harvey, 2005, p. 40). Neoliberalism did not just happen to be the dominant ideology without underlying forces working towards it. It took one step at a time for the neoliberal ideology to be dominant.

Neoliberalism as a process has been explained by a growing number of scholars using Gramsci's notion of hegemony (see Cox, 1993; Harvey, 2005; Howson & Smith, 2008). All of these literature suggest that neoliberalism is a class project to stimulate the upward redistribution of disposable income in the name of the free market, individualism and freedom. This project was made possible by construction of consent by the neoliberal intellectuals. Gramsci's notion of hegemony has informed many accounts of neoliberalism (Cahill, 2008, p. 201). Therefore, in this thesis, I will try to illustrate the decline of the Glass-Steagall Act as a part of neoliberal process using the theoretical background of Gramsci's notion of hegemony. I will argue that the Glass-Steagall Act was repealed by the neoliberal intellectuals in the state apparatus and financial sector as part of a process of implementing the neoliberal market system at the core of the financial system in the US.

I intend to present an interpretation of the historical ontology characteristic of Gramsci, and to understand a single instance of an event or phenomenon. Here, the broader phenomenon is neoliberalism, and the particular instance of that phenomenon is the repeal of the Glass-Steagall Act. Using Gramsci, I will interpret the class project for hegemony, which facilitated the long and slow demise of the Glass-Steagall Act in the broader neoliberalization process. The objective in this paper, however, is not to support or oppose the repeal of the Act in explaining the most recent financial crisis, but to provide a new perspective for the scholars who are engaged in the argument, and to provide a theoretical background to underpin the condition and process of its repeal, which currently absent in the literature.

Gill (1993, p. 4) states that Gramsci's work focuses on "the analysis of national social formation in particular historical periods… at which the state and civil society should be analysed, and where the foundations of social hegemonies were built". Engaging Gramsci in explanation of repeal of the Glass-Steagall Act first, "provides an ontological and epistemological foundation upon which to construct a non-deterministic yet structurally grounded explanation of change" and second, "employment of his methodology, which the Italian school has broadly interpreted as an innovative reading of historical materialism in conjunction with a flexible and ultimately historicist understanding of social class, institutions and the power of ideas" (Germain & Kenny, 1998, p. 5). I would like to stress that hegemony is a process that continues over a long period. Therefore, we need to have a bird's eye view of the repeal of the Act without limiting the study to a specific period. However, I will limit my study within the economic and political development of the US.

In terms of the research method, my research will be using a disciplined interpretive case study method to interpret repeal of Glass-Steagall Act. Odell (2001, p. 163) writes, "the disciplined interpretive case study explains an event by applying a known theory to the new terrain".

To conclude, the repeal of the Glass-Steagall Act is not a momentary event. It signifies a milestone in the long process of deregulation as a part of prevailing economic ideology. Therefore, since Gramsci's notion of hegemony has been very important in analyzing the paradigm shift in the economic ideology, I will be engaging Gramsci to analyze the case of the repeal of the Glass-Steagall Act. When the focus is mainly on the positivist approach in studying the repeal of the act, my study will reinforce the critical approach in studying and theorizing it. To this end, in the next chapter I will briefly review the literature that has used a critical approach in analyzing the repeal of the Act. I will also highlight the literature that has used the theory of hegemony in explaining neoliberalism so that it provides context to the rest of the chapters. In the third chapter, I will elaborate on Gramsci's theory of hegemony and his notion of intellectuals as a theoretical framework to this paper. In the process, I will present the various concepts that form the building blocks of the theory of hegemony. In the fourth chapter, I will introduce the Glass-Steagall Act, its provision and the conditions under which it was enacted. I will also analyze why it was important for neoliberals to repeal the Act by comparing the provisions of the Act with the neoliberal ideology. In the fifth chapter, I will highlight how the capitalist class designed an offensive against the Act, and against the arguments on the basis of which the act was enacted by mobilizing their intellectuals, and in the sixth chapter, I will highlight the role of individual intellectuals who led the repeal of the Glass-Steagall Act, especially focusing on one of the longest serving Chairs of the Federal Reserve of the US, Alan Greenspan.

Chapter 2-Literature Review

The Glass-Steagall Act was enacted in 1933 after the Great Depression. It was slowly eroded, especially after 1970, and was finally repealed in 1999. There are multiple perspectives on why the Act was finally repealed. However, there are only a few that go beyond the empirical analysis to analyze it critically. Moreover, the literature neither considers the role of paradigm shift in the economic ideology in repeal of the Act nor explains the process with any theory. Therefore, in this chapter, first I will focus on the literature that uses the critical method to explain the repeal of the Glass-Steagall Act. This literature, however, comes short in explaining the underpinnings of the reasons that they have pointed out to explain the repeal. In contrast, my paper will be based on Gramsci's notion of hegemony, and I will be arguing that the repeal of the Act was part of the overarching process of establishing hegemonic ideology, later termed as neoliberalism. Therefore, I need to establish the relationship between theory of hegemony and neoliberalism in order to use this relationship to support my hypothesis that the repeal of the Glass-Steagall act was the part of the process of neoliberal hegemony. Thus, in the second part, I will concentrate on literature that has established or will help me establish relationship between hegemony and the rise of neoliberalism.

Repeal of the Glass-Steagall Act

Middleton (1982) first recognized the pressure that was building against the Glass-Steagall Act as Wall Street was convinced that the Act outlived its usefulness. However, Norton (1987, p. 368) concluded that it was unlikely that the Act will be completely repealed in the foreseeable future as bank regulators were more concerned with safe and sound bank industry in the light of increasing financial institution failure. Despite his prediction, the Act was completely repealed by the end of the next decade. Against some empirical research that justifies the repeal, there are very few researchers who have critically analyzed the event, and of which, I have addressed two literature having similar arguments as this paper. Nonetheless, these arguments are partial and lack a theoretical framework.

Barth, Brumbaugh Jr, and Wilcox's (2000) analysis suggest that the repeal of the Act was underpinned by first, increased weight of empirical evidence generated by academics. Second, there was the experience of lesser problems within the banking industry after permitting to undertake limited securities and insurance activities, and third, the technological advancement that reduced cost to allow rapid exchange of data from one business to benefit another business, which increased profitability of cross-selling insurance and securities products to both household and business customers. I believe this is a partial analysis of the repeal, as it does not consider the role of hegemonic ideology that influenced the academics to argue against the act, and provided flexibility to regulators to allow banks to undertake limited securities and insurance activities at the first place.

Hendrickson's (2001) argument of the role of interest groups and markets in influencing the regulatory change has the same issue. He argues that interest groups acted rationally to repeal the Act as it was in favor of their self-interest. The repeal of the Act would not have been possible without the persistent lobbying by the interest groups, commercial banks and investment banks. Moreover, she focuses on the role of the market in the creation or reform of regulation and legislation. Hendrickson (2001) writes, “a careful look at both the creation and dismantling of Glass-Steagall suggests that market developments actually play an important role in the timing and nature of regulation and reform.” She points out the merger between Citicorp and Travelers as one of the examples of market development suggesting financial markets were moving beyond the Glass-Steagall restriction despite the lack of legislative consent. Nonetheless, she does not give currency to the role of interest groups in creating such market conditions or merger in this case. Moreover, the role of the overarching economic ideology that permits such market development is also ignored.

Therefore, I look forward to situating my study within the hegemonic process that established neoliberalism. To that end, henceforth, I will briefly introduce why and how neoliberalism became the hegemonic economic ideology so that it can provide context and be background for the rest of the chapters.

Neoliberalism, a hegemonic process

Between 1933 and the late 1970s, Wade (2009) points out that the disposable income including capital gains of top 1 percent population of the US plummeted from 22.5 percent to 9 percent. Nevertheless, the Thatcher/Reagan revolutions after that period changed political-economic ideology stimulating the biggest upward redistribution of disposable income, which reached same as that before the enactment of the Act in 1929 (Harvey, 2005, p. 23; Wade, 2009, p. 12). After neoliberal turn in the 1970s, it merely took 30 years for neoliberalism to re-establish the elite class at its previous position. It is evident that the turn in political-economic ideology stimulated the biggest upward redistribution of disposable income. By 2006, the disposable income of the top 1 percent reached same as that before the enactment of the Act in 1929 (Harvey, 2005, p. 23; Wade, 2009, p. 12). The same period saw the slow erosion of the Glass-Steagall Act. This suggests that there was a link between the repeal of the Glass-Steagall Act and neoliberal process.

Harvey (2005, p. 40) provides Gramsci's theory as a basis to explain neoliberalism as a hegemonic ideology that played a role in the redistribution of wealth upward. He is skeptical of solely attributing the consequences of the neoliberal revolution to Thatcher and Reagan after 1979. He argues that the shift from Keynesian to the neoliberal system required a prior construction of political consent across a sufficiently large spectrum of the population. Therefore, "organizing the think-tanks, the capture of certain segments of the media, and the conversion of many intellectuals to neoliberal ways of thinking, created a climate of opinion in support of neoliberalism as an exclusive guarantor of freedom" (Harvey, 2005, p. 40). Neoliberalism is not just an "imposition of class advantage" but a hegemony that was exercised "within expert communities and the academy, within policy and government circles, and [most importantly] as an expression of popular culture"(Centeno & Cohen, 2012, p. 328).

Similarly, Kotz (2008, p. 2) explains upward distribution of the wealth with the theory of social structure of accumulation (SSA). He interprets SSA as "a coherent, long-lasting capitalist institutional structure that promotes profit-making and forms a framework for capital accumulation". He states that neoliberalism is the latest institutional form of capitalism that replaced post-Word War II SSA, which eventually led to financialization. However, Kotz falls short in explaining how the framework for capital accumulation is established.

Nonetheless, Harvey (2007) explains how popular consent was generated by globalized elites to make neoliberalism a hegemonic ideology. This also will help explain what Kotz has left unanswered. Harvey writes “for any system of thought to become dominant, it requires the articulation of fundamental concepts that become so deeply embedded in commonsense understandings that they are taken for granted and beyond question”. Therefore, naturalization of neoliberalism was necessary. To this end, there was no better tool than the rhetoric of individual freedom. He argues that it was a tool to appeal to the masses instead of openly giving away the idea of upward redistribution of wealth to a small elite. Individual liberty and freedom, thus, masked the class project of redistribution of wealth upward. These ideas of individual liberty, freedom and free market were used to win enough members of the ruling class, Miller (2010) argues, without whom becoming “indifferent or constrained enough to make opposition futile” was not possible to implement neoliberal ideas to change the system.

Therefore, in order to achieve this, Miller (2010) writes, lobby groups, think tanks, research institute, and corporate-sponsored foundations had set their footings as early as 1919 when Royal Institute for International Affairs was established in London and the Council of Foreign Relations in the US in 1921. This development process included a network of “proto-neoliberals”- intellectuals who were engaged in reconstruction of an alternative worldview founding on market relations dedicated to developing new hegemony over the “collectivist ideologies” of nationalism, socialism and fascism (Peck & Tickell, 2003). In 1947, there were parallel developments in intellectual society on both sides of the Atlantic that would establish an international network of influential neoliberal think tanks that would keep the neoliberal ideas alive and prepare the ground to challenge Keynesianism. At one side was Mont Pelerin society, formed by Friedrich Hayek together with Milton Friedman, Karl Popper, Michael Polanyi and Henry Haslitt to develop a ‘philosophy of freedom’, and at the other side was Chicago school, transformed by Milton Friedman and his acolytes to develop a neoclassical form of economic theory (Miller, 2010; Peck & Tickell, 2003).

These establishments are equally active today in “organizing and pursuing capitalist class interest through the promotion of neoliberal agendas and the planning of neoliberal projects” (Miller, 2010, p. 23). Together with these establishments, the alliance that developed the institutions of global financial market developed the rules of governing it and naturalized it as a common sense of global financial capitalism (Cutler, 2012, p. 2). Cutler (2012, p. 2) states that this alliance of “self-interested bankers and investors, complicit governments and international organizational bureaucracies and a network of credit rating-agencies and other private associations… was formed within the context of dominant knowledge structures that conditioned belief systems” and this belief system also dictates how to govern that system through the alliance. He uses the concept of organic intellectuals presented by Gramsci to understand this prominence of ideas in making certain ways of governing global financial market dominant.

The change in the economic and market dynamics starting in the early 1970s played an important role of catalyst in this hegemonic process. Bretton Woods system of fixed exchange rate backed by gold reserve had fallen, the OPEC oil embargo had produced oil price shocks and Vietnam War had disrupted the economy (Harvey, 2005; Palley, 2005). More importantly, inflation was increasing with output and employment falling (Helliwell, 1988). At the time, the source of all this problems was seen as the government interference in the economy and the set of actions- “fiscal austerity, market-determined interest and exchange rates, free trade, inward investment deregulation, privatization, market deregulation, and a commitment to protecting private property”, were presented as Washington Consensus as a solution to this pervasive problems (Centeno & Cohen, 2012). Moreover, to control the inflation, the Federal Reserve Bank changed their monetary policy giving away “the principles of the New Deal, which meant broadly Keynesian fiscal and monetary policies with full employment as the key objective, was abandoned” (Harvey, 2005, p. 23). Nonetheless, though these market developments gave rise to neoliberalism, the ultimate cause that reversed Keynesian framework and revived neoliberalism was “intellectual divisions in Keynesianism and its failure to develop public understandings of the economy which could compete with the neoliberal rhetoric of ‘free markets’” (Palley, 2005).

The free market rhetoric was combined with political campaign contributions and multimillion-dollar lobbying efforts (Stiglitz, 2009). This package was sufficient to make believe that regulations imposed by government are detrimental to the economy and subsequently the society as a whole. These neoliberal intellectuals were the barriers against any policy shift away from market logic. They constantly argued against any regulations imposed by government, which allowed the erosion of tight financial regulations that were imposed after the Great Depression. Crotty (2009) concludes that the deregulation and the globalization of financial markets not just allowed room for financial innovation but also grossly inflated the size of financial markets related to the real economy making it unsustainable. Despite this, "most elected officials responsible for overseeing US financial markets have been strongly influenced by efficient market ideology and corrupted by the campaign contributions and $3.4 billion to lobby federal officials" (Crotty, 2009, p. 577).

As in the case of intellectuals in a domestic sphere, the project of upward redistribution of wealth was made pervasive by international institutions by taking the idea beyond national boundaries with the rhetoric of economic freedom (Augelli & Murphy, 1993; Cox, 1993). Nonetheless, the agenda of these institutions would be to "help define policy guidelines for states and to legitimate certain institutions and practices at the national level…[that are] favorable to the dominant social and economic forces" (Cox, 1993, p. 63). Cox (1993) adopts the Gramsci's concept of hegemony to understand international institutions as ideological intellectuals that facilitate the expansion of the dominant economic and social forces in the world stage. He states that international organizations are the products of the hegemonic world orders that not just facilitate the expansion of hegemonic world orders, but also ideologically legitimize it. This has led to rise in truly transnational capital and the integration of every country into a new globalized production and financial system, which has allowed transnational capitalist class to position itself as a global ruling class (Robinson, 2013). It has deeply penetrated the state apparatuses with unlimited funding to political parties and campaigns, which has made the translation of economic power possible to gain political control and shape the political outcomes in favor of the class (Robinson, 2013). He concludes by highlighting the importance of organic intellectuals as he calls them to influence the massive redistribution of wealth downwards.

Snider (2011) argues that globalized trade and neoliberal policies that government pursued after 1980 made it difficult for the regulators to step in and take action against the corporate world. This allowed the financial market to grow so big that the superiority of the private sector started to translate into superior political power. She presents the political and economic dilemma of government in trying to prosecute corporations. At political level, it would cost votes, donations, and electoral support. Moreover, governments can be under pressure if businesses threaten to close or move. It would not just put jobs and tax revenue at risk but also will make governments look "antibusiness or [even more worse] socialist", a brand which well positioned business sector can easily use to put publics and governments against each other (Snider, 2011, p. 131). At the economic level, "corporations have the resources to exploit every loophole, file endless constitutional challenges, appeal every decision, swamp regulatory agencies… making convictions unlikely and investigations too costly for even the most robust regulatory budget" (Snider, 2011, p. 131).

Nevertheless, in contrast to the arguments against deregulations, Major (2012) argues that it was neoliberal regulation, not deregulation, that neoliberalism used to shield the financial markets from public scrutiny.

> The proponents of the neoliberal discourse… to maintain some order over the global financial markets when the older regulatory approaches have been discredited… ushered in a process of financial market reregulation through depoliticization. Public and contestable methods of economic management have been replaced by those that are obscure and technocratic, insulating the financial markets from mass political pressure. Major (2012, p. 541)

This was marked by first, "growing power of private financial actors to shape global regulatory bodies", second, "emphasis on information transparency, expertise and 'technical fixes' in the global regulatory structure", and third, "the increased policy making autonomy and international cohesion of state finance ministries and central banks"(Major, 2012).

Despite the difference in the arguments, all of this literature highlights the growing prominence of neoliberalism and the capitalist class post 1970. They all argue that the class, in order to establish itself, has mastered the technique to make neoliberalism a pervasive ideology. Based on the arguments we can draw a conclusion that the rise of neoliberalism was a class project of redistribution of wealth upward. In the process, they used political society "to impose the interest of capitalist class over civil society, often silently and with stealth" (Howson & Smith, 2008, p. 5).

To conclude, the literature on the repeal of the Glass-Steagall Act is convincing but partial. They lack a theoretical framework and have ignored the role of overarching hegemonic ideology under which the repeal of the Act was made. Therefore, some of the literature that I have highlighted helps to establish an inverse relationship between the rise of neoliberalism and the decline of the Glass-Steagall Act in the US. In the next chapter, I will be elaborating on Gramsci's theory of hegemony and intellectuals.

Chapter 3- Gramsci, Hegemony and Intellectuals

Antonio Gramsci's approach is comprehensive, as it allows for a more consistent theorization and explanation of changes in the contemporary global political economy than other approaches. His theory of hegemony has been very important in explaining what Marxist theorist fails to explain, the survival and strength of liberalism and capitalism in the west (see Fontana, 2008, p. 91; Joll, 1977, p. 7). More importantly, Gramsci's notion of hegemony and intellectuals has proved to be an important and popular theoretical lens through which to analyze the phenomenon of neoliberalism, and it has answered questions relevant to specific cases (e.g. Howson & Smith, 2008; Merino, Mayper, & Tolleson, 2010). His approach, a critical method, provides a framework to study present conditions within a present society around the world (Buttigieg, 1995, p. 32). Therefore, before we use theory of hegemony to analyze the repeal of the Glass-Steagall act, it is important to understand its components and their relation to each other. In this chapter, I will develop a theoretical framework so that I can draw parallels between the theory of hegemony and the case of repeal of Glass-Steagall Act in an attempt to support my hypothesis in the subsequent chapters.

Gramsci argues that the rise of a class to the ruling position in not possible by merely an economic relation. For Gramsci, the historical and political changes cannot be explained simply in terms of economic changes, but rather in terms of philosophy, ideas, social relations and moral values highlighting on human subjectivity of the class struggle where the ruling class seeks consent to rule with their system of belief (Joll, 1977, pp. 7-8). Social, economic and political changes are subject to ethical-political expansion of a social group that, because of its intellectual and moral superiority, feels that it has the right and the strength to rule the society (Pellicani, 1981, p. 31). He emphasized political instead of economic determinism to provide currency to the state and civil society (Bocock, 1986).

Gramsci used the concept of hegemony to provide a suitable explanation and analysis of how modern capitalist societies thrived in the past and what makes them a very strong class to be a contender to be well organized in the future (Bocock, 1986, p. 27). To understand the concept of hegemony, we first need to understand distinction between civil society and the state, as this dichotomy of the super structure is the foundation of his analysis.

> …two major superstructural "levels" : the one that can be called "civil society", that is the ensemble of organisms commonly called "private", and that of political society or "the state". These two levels corresponds on the one hand to the function of "hegemony" which the dominant group exercises throughout society and on the other hand to that of "direct domination" or command exercised through the State and "juridical" government (Gramsci, 1971, p. 12)

Civil society is identified as "the ideological superstructure, the institutions and technical instruments that create and diffuse modes of thoughts" (Femia, 1981, p. 26), and the political society as composed of the judicial-coercive apparatus of the state (Pellicani, 1981, p. 33). Therefore, state is the source of coercive power in society, and civil society is the place of hegemonic leadership. When hegemony is armoured with coercive power, this combination of state and civil society is 'the integral state' (Bocock, 1986, p. 28). The integral state, therefore, has means of coercion [police and army] and the means of establishing hegemonic leadership in civil society [education, publishing, broadcasting and cinema] (Bocock, 1986, p. 28).

Gramsci saw civil society as a domain in which existing social order is grounded, and it can also be a domain in which a new social order can be founded for which he made civil society his core subject. He understood the emancipatory potential of civil society and thus if any strategy for transformation is to be devised then it would be this domain (Cox, 1999, p. 4).

> Civil society is best described … as sphere … of hegemony. Hegemony to be sure, depends on consent… but consent is not the spontaneous outcome of "free choice"; consent is manufactured albeit through extremely complex mediums, diverse institutions and constantly changing processes. Furthermore, the power to manufacture consent is not evenly distributed in society... ; indeed, not everyone is in an equal position to understand how consent is manufactured and there are even those who remain unaware of the fact that consent is manufactured and actually believe that they give their own consent "freely" and spontaneously. (Buttigieg, 1995, p. 7)

Buttigieg (1995, p. 3) states, "the main value of Gramsci's concept of civil society, which is intertwined with his theory of hegemony, resides in its exposure of the mechanisms and modulations of power in capitalist states that purport to be democratic". Civil society and political society mutually reinforce each other to the advantage of certain strata, groups and institutions. Reciprocal balance between force and consent is exercised to achieve hegemony over old ideology where the force is made to look as if generated from consent of the majority, circulated via different mediums that are perceived to be organs of public opinions (Gramsci, 1971, p. 80). Therefore, the parliamentary game is an effective means for creating the illusion of popular sovereignty (Bates, 1975). Bates (1975, p. 363) writes

> The powers-that-be in the state have a great advantage in the struggle for hegemony, by virtue of their superior organization, information, and means of communication. Alongside parliament, they have the yet more modern instrument of "public opinion,". Public opinion is strictly linked to political hegemony. It is the point of contact between civil society and political society, between consensus and force. The state, when it wants to initiate an unpopular action, preventively creates the adequate public opinion; that is, it organizes and concentrates certain elements of civil society (Bates, 1975, p. 363)

Nonetheless, when civil society fully develops, the State will merely remain as subordinated agents of civil society's hegemony. It will actively reinforce this hegemonic idea (Hardt, 1995). These hegemonic ideas are expressed through legislative apparatus of the state. However, it is important for representative of change to be in control of the state (Holman, 1993).

Gramsci tends to believe that with the formulation of strong civil society, all institutions that are private reproduce the existing power relations or adapts them to the needs of the economic structure (Morera, 1990, p. 29). That is, the majority of the people should believe in the values promoted by the ruling class or the ruling class must be able to make limited concessions on universal values so that the existing power relation between them and the subordinate class is preserved (Morera, 1990, p. 29). While doing so, the leading class must deal with any possible conflict within the civil society with the help of state in such a way that the disruptive effects of the conflict is minimized (Morera, 1990, p. 28). It is important to make sure that

> the concessions to the demands that emerge from the private institutions of civil society must be accomplished without ever making any sacrifices that would affect the foundations of the power of the leading class; this ability to make concessions and to win allies through them is one of the main characteristics of the hegemonic function of a class (Morera, 1990, p. 28)

The notion of hegemony, therefore, at the first level, corresponds to a dominant class whose power exercised through society, and at the second, corresponds the direct domination expressed through government by law (Davidson, 1968, p. 32). Here, Howson and Smith (2008, p. 5) write, "when Gramsci speaks of the state acting as domination, the state has incorporated certain corporatist interests and exercises its power to maintain these interests by keeping the subaltern social groups fragmented and passive within civil society."

But before this, in the struggle of any class to emerge from subordination to the ruling class, it must establish its own ideological system as a prerequisite for advancing its candidacy, and it must require its own ideas in its confrontation with the ruling class (Pellicani, 1981, p. 37). Gramsci's analysis of the mode by which the dominant classes established their hegemony made him believe that "only through intellectual activity could the masses be elevated to the role of agents of historical transformation" (Salamini, 1981, p. 120). Therefore,

> every social group, coming into existence on the original terrain of an essential function in the world of economic production, creates together with itself, organically, one or more strata of intellectuals which give it homogeneity and an awareness of its own function not only in the economic but also in the social and political fields (Gramsci, 1971, p. 5)

In a capitalist society, if not capitalist entrepreneurs, at least an elite amongst their class must have the capacity of to be an intellectual who would create conditions that favour the expansion of their class and this elite at the least must possess the capacity to choose their deputies to perform their responsibilities (Gramsci, 1971, p. 6). However, only fundamental groups are able to produce intellectuals with the hegemonic function. Here, the concept of intellectuals is important for Gramsci and his notion of hegemony. Intellectuals are members of society with leading qualities who hold considerable expertise or skills in any field of knowledge, especially in the field of politics, economics and culture (Patnaik, 2004). These intellectuals presume their work to be universal and neutral, when in fact, they would be continuously working towards maintaining hegemony of the ruling class (Patnaik, 2004).

Gramsci understands intellectuals to be 'traditional' and 'organic'. Traditional intellectuals are those who perform tasks of intellectual leadership in a given society whereas organic intellectuals are those who are closely bound to the class to which they belong (Joll, 1977, p. 91). The traditional intellectuals are the creative artists and scholars who organizes the culture- “the vestiges of organic intellectuals from previous social formations” (Femia, 1981, p. 131). The organic intellectuals, on the other hand, are those traditional intellectuals who join the emerging class as they believe in a new ideology against the status quo (Joll, 1977, p. 93). The primary role of the traditional intellectuals is to produce consensus to maintain status quo in the society (Buttigieg, 2002). If these traditional intellectuals do not join the emerging class, this self-proclaimed autonomy of traditional intellectuals will stands directly against the new social class (Salamini, 1981, p. 109). Therefore, it is very important for any group that is developing hegemonic ideology to assimilate and conquest the traditional hegemonic intellectuals. If the conquest is made quicker and more efficiently, the more the group in question succeeds in simultaneously elaborating its own organic intellectuals (Gramsci, 1971, p. 10). Organic intellectuals are key to development of a new hegemony as their “task is to produce self-knowledge through education” (Howson & Smith, 2008, p. 5). Howson and Smith (2008, p. 5) write, “the movement from common sense to good sense, or development of a new hegemony, involves the organic intellectual in the reconfiguration of power so that it organically can only develop through a ‘war of position’”. It should be possible to measure the organic quality of these intellectuals and their degree of connection to the social group, and “to establish a gradation of their functions” (Gramsci, 1971, p. 12).

Intellectuals have mediating function in the class struggle for hegemony. They are the deputies of the hegemonic class “exercising the subaltern functions of social hegemony and political government” (Gramsci, 1971, p. 12). Gramsci believed that the struggle of a new ideology of a emerging class involved a struggle to establish a rival hegemony and this meant first a struggle to establish a rival intellectual force and then to win over the bulk of the intellectuals who legitimized the old ideological system, “in whose values the mass acquiesced” (Davidson, 1968, p. 48). The reason for submission towards a new group of intellectuals by the old is not because they are weak physically or mentally, nor because they are ideologically inferior, but because they find themselves accommodated in the ruling classes idea, and ability of intellectuals who inculcate those ideas in a civil society. Bates (1975, p. 353) argues that the ruling class influence civil society as "the intellectuals succeed in creating hegemony, the ruling to the extent that they extend the world view of the rulers to the ruled, and thereby secure the "free" consent of the masses to the law and order of the lands". Intellectuals achieve this by exercising social hegemony, which is done through institutions and by non-institutional means (Davidson, 1968, p. 47). The indoctrination of young via education is an obvious method, but the intellectuals also will have access to all the mass media at their disposal (Davidson, 1968, p. 47) . If the intellectuals fail in this attempt, the contingent will be to invoke state's coercive power to get a forced consent (Bates, 1975, p. 353). Therefore,

> The fundamental functions of intellectuals are structural but more importantly superstructural. In fact, from mere “specialisation” of partial aspects if the primitive activity of the new social group, the intellectuals become ‘the functionaries of the superstructure, ‘the engineer of the masses’ consent to the ideology of dominant classes (Salamini, 1981, p. 108)

Hegemony is not something achievable easily or not necessarily long lasting once achieved. Thus, the ruling class must constantly monitor and reinforce intellectual 'hegemony' to maintain the status quo. A class only can remain hegemonic as long as, Pellicani (1981, p. 32) writes, “it is able to produce from within or to co-opt a plurality of creative minorities able to increase the material and spiritual patrimony of the collectivity and to obtain the consent of the subordinate classes”. Therefore, in a society, ideology can be seen embedded in art, literature, the education system, media, popular culture and language (Heywood, 2003, p. 8). The hegemonic class produces philosophy, political theory, and economics, which together constitute a coherent worldview, the principles of which can be translated from one disciple to another (Augelli & Murphy, 1993, p. 130). Therefore, it is necessary for the hegemonic group to control the education sector and media, for it is an area where a coherent worldview is created. To this end, since the hegemonic group have access to massive data bases, droves of political risk analysts, many publications of their own, media houses and endowed elite universities, “powerful ideological influences circulates through these and numerous other institutions that constitute civil society” (Harvey, 2005, p. 40).

> In a society governed by hegemony intellectuals play a very important role. First, hegemonic ideology is formed as a constellation of interests of ruling classes; second, it accommodates specifities of historical and cultural living of subaltern classes; third, hegemony cannot be established at once; it must be established gradually through struggles of different kinds; fourth, hegemonic ideology is hegemonic only when it depends on common sense and also aims to become part of common sense (Patnaik, 2004, p. 1122)

This process, at one side, is fueled by intellectuals with the exercise of their proficiency in their respective field, and at another, coerced by the political apparatus and legislative bodies, which is again controlled by hegemonic intellectuals. Once hegemony is established, the state incorporates the interest of the hegemonic class and exercises its power to maintain these interests. Gramsci's approach is not only comprehensive for a consistent theorization and explanation of changes in the social class. It also is useful in theorizing the contemporary global political economy. Therefore, using Gramsci's framework and the notion of 'intellectuals', in the consequent chapters I will try to analyse the repeal of the Glass-Steagall act.

In subsequent chapters, I will run the concept of hegemony and intellectuals in parallel to the process of repeal of the Glass-Steagall Act. To that end, I will look at three different spheres of the theory. First, I will try to highlight why repeal of the Glass-Steagall Act was important for the neoliberal intellectuals to maintain hegemony of neoliberal ideology. Second, I will highlight how, from both political society and civil society, intellectuals generated public opinion against the popular act, and third, I will highlight, how the intellectuals or 'representative of change' as suggested by Holman diffused the ideas against the Glass-Steagall Act within the state.

Chapter 4- Provisions of the Glass-Steagall Act and the Neoliberal Challenge

"Ownership of very substantial financial assets is clearly the main determinant in the capital class"(Foster, 2007, p. 7). Nonetheless, ownership of the financial capital significantly started to reduce because of the regulatory measures introduced after the Great Depression. One single piece of legislation that played an important role in subsequently reducing this wealth is the Glass-Steagall Act. In a hegemonic struggle of the capital class, it is obvious that accumulating financial wealth and creating conditions favorable for it would be the main motive of the capitalist class. Therefore, the genesis of the repeal of the Glass-Steagall Act was rooted in the rise of neoliberal economic hegemony. In order to prove that neoliberal process led to repeal of the Glass-Steagall Act, in this chapter, I will run neoliberal philosophy and practices parallel with the provisions of Glass-Steagall Act and evaluate how they contradicted with each other.

The crash of the Stock Market in 1929 and the Great Depression saw the collapse of financial superstructure of monopoly capitalism (Foster, 2007, p. 5). After the Depression, a different set of ideology took over where the state took control of economic steering. The New Deal reforms sought to restore public faith in the financial system with the Glass-Steagall Act (Konings, 2009, p. 82). The objective of the New Deal was to maintain full employment following Keynesian fiscal and monetary policies (Harvey, 2005, p. 23).

> The principles of the Keynesian welfare state consisted in securing full employment under the conditions of relatively closed economies and influencing the distribution of income via collective bargaining regulation so that economic growth could be sustained by rising effective domestic demand (Hein, Dodig, & Budyldina, 2014, p. 5)

Nevertheless, the capitalist class and their ideology were never completed defeated. Underneath the rubble of economic collapse, they were reorganizing their class propelled by their old ideology, later termed "neoliberalism". Neoliberalism as an ideology was an expression of the new hegemony of finance, which reshaped many basic features of contemporary capitalism (Duménil & Lévy, 2001, p. 601). This was not possible without the neoliberal restructuring, which led to immediate cause for the financialization process (Kotz, 2008). However, the financialization process was not possible with the barriers erected by the Glass-Steagall Act, which was enacted as one of the measures to fix the financial side of the economy (Hendrickson, 2001). It stood between the profit maximization process and the financial institutions. It was also a barrier towards the bigger agenda of the capitalist class, which was to replace Keynesianism with neoliberalism to re-establish their dominance.

After the Great Depression, especially after the Second World War, the finance was strictly regulated especially interest rates and the financial activity of commercial banks (Duménil & Lévy, 2001). In particular, the enactment of the Glass-Steagall Act had limited the options for financial institutions by strictly imposing a set of regulation. Glass-Steagall Act was part of the Banking Act of 1933 that served as a restoration effort of the banking system that started collapsing in late 1930 (Cargill, 1988). Sections 16, 20, 21, and 32 of the Banking Act of 1933 that dealt with bank securities operations are collectively referred as the Glass-Steagall Act. The Act established Federal Depository Insurance Corporation (FDIC), which would insure all member banks in case of bank failure and in return, the Federal Reserve Bank tightened its grip over commercial banks (Crawford, 2011). Cargill (1988, p. 27) writes, "the Glass-Steagall Act prohibited any Federal Reserve System from purchasing, dealing in, or underwriting nongovernment securities for their own account, or affiliating with any corporation principally engaged in these Activities". Banks were forced to choose between being commercial banks and investment banks, and commercial banks were banned from underwriting securities (Crawford, 2011). This included the provision that no bank or any of its constituents under federal membership could have any kind of affiliations with investment banks. After its enactment, "the Glass-Steagall Act became one of the most influential and far-reaching pieces of legislation on the American financial system" (Ramírez, 1999, p. 372). Commercial banks were forbidden to undertake the investment activities under section 16, their holding companies and affiliates under Sections 20 and 32 respectively, and investment banks were forbidden to accept deposits under section 21 of the Act (White, 2010, p. 939).

The primary reason for the enactment of this legislation by the Congress was to completely eliminate the conflict of interest that arises when "financial institutions that combine both banking and marketing functions to provide better service for their clients also seize opportunities to increase their own profits ahead of the interests of their depositors" (Neal & White, 2012). Three major conflicts of interest that were identified were, first, when commercial banks attempted to convince corporate customer to use their service while making public offerings of securities. Second, the bank promoted the issued securities in an assumption that the issuing firm pays back the loan provided by them, and third, commercial bank provided unsound loans and credits to the firm whose securities it promotes (Macey, 1981, p. 104). This conflict of interest was prominent when commercial banks were engaged in the sale of securities before the enactment of the Glass-Steagall Act. Thus, the Act completely extirpated investment activities that existed in commercial banks, which not just promoted bank stability but also achieved public confidence in the commercial banking system.

After this separation, banks that were addicted to taking high risk and making enormous profit were deprived of their casinos. Before Glass-Steagall, commercial bank's security dealings were extremely profitable with 36 percent of national bank profits coming from their investment affiliates (Hendrickson, 2001, p. 858). Thus, the commercial banks had to give up huge profit margins with the enactment of the Act. Over the time, the erosion of Glass-Steagall highlighted that commercial banks had strong incentives to get into securities activities as these activities were highly profitable (Mester, 1996, p. 6). After 1970s, there were creations of money market mutual funds that grew tremendously over two decades. However, due to the restrictions of Glass-Steagall Provisions, the bankers were largely unable to capitalize on these market developments (Hendrickson, 2001, p. 861). Therefore, Glass-Steagall Act was a major hurdle for the financial institutions trying to maximize their profit. Hendrickson (2001, p. 861) concludes that if a policy or any piece of legislation comes between the profit and competitive perspective of the capital class, the class will rigorously Act to avoid or repeal the policy or regulation.

However, they needed to develop arguments other than profit maximization to generate a case against Glass-Steagall Act. This attempt was underpinned by ideological struggle that was advocated by neoliberal intellectuals to generate popular consent against the post-depression era interventions (Harvey, 2007; Jones, 2012).

Following the Great Depression, the capitalist class had accepted the government interventions and social provisions to complement the state's primary role as preserver of market order (Jones, 2012, p. 3) despite the fact that their philosophy, policy program and political strategy did not allow any form of government intervention. Moreover, some scholars highlighted that the time when the Glass-Steagall was proposed, the class and the banking community lacked political support.

> …with no political defenders, the banking community had a little choice but to accept this criticism and engage in some damage control. In the end, however, congressional hearing were planned and executed, and the Glass-Steagall Act of 1933 was put in place during the Roosevelt administration. (Ramírez, 1999, p. 376)

Though the event was unacceptable for the capitalist class, they had to accept the circumstance at the time. However, they were not the ones who favored democratic and parliamentary decision-making (Harvey, 2005, p. 66). They sought to protect institutions like the central bank from democratic and parliamentary pressure in favor of governance by experts and elites (Harvey, 2005, p. 66).

In the hegemonic process, "the ideologies become the primary moment of history" (Bobbio, 1979, p. 36). For Gramsci, ideologies always come before institutions. Therefore, as force ready to create new history, neoliberalism as a hegemonic economic ideology started getting prominence against the Keynesian framework by 1970s (see Harvey, 2005; Jones, 2012; Palley, 2004). As Gramsci wrote,

> …the same thing happens in politics, during the great economic crises. A crisis cannot give the attacking forces the ability to organise with lightning speed in time and in space; still less can it endow them with fighting spirit. Similarly, the defenders are not demoralised, nor do they abandon their positions, even among the ruins, nor do they lose faith in their own strengths or their future. Of course, things do not remain exactly as they were; but it is certain that one will not find the element of speed, of accelerated time, of the definitive forward march... (Gramsci, 2006, p. 74)

The capitalist class was not defeated due to the crisis of the 1920s or the subsequent intervention by the state. They were among the ruins organizing their intellectuals and diffusing their ideology in the civil society. It took them 40 years to get the momentum and have their agenda at the core of political society. By the 1980s, the old structure totally gave away to neoliberal structure where financial sector had achieved a high degree of independence (Foster, 2007, p. 6). Nevertheless, few signs of Keynesian framework were very popular which took a while for neoliberal hegemony to generate public opinion against it. One of these was the Glass-Steagall Act. Repeal of Glass-Steagall Act was very important for neoliberal hegemony as it stood against every understanding of its ideology. If the Act is compared with understandings of neoliberalism, the urgency for its repeal by neoliberal forces will be highlighted. Henceforth, I will compare the Act with four understandings of neoliberalism provided by England and Ward (2007, pp. 11-13), which are 1] Neoliberalism as an ideological hegemonic project, 2] Neoliberalism as policy and program, 3] Neoliberalism as state form, and 4] Neoliberalism as governmentality

First, Neoliberalism is an ideological hegemonic project where various actors and institutions make "coherent programs of ideas and images about the world, its problem and how these are best solved" voluntary accepted as common sense by subordinate group at all level of society (England & Ward, 2007). The Glass-Steagall Act stood against this project, as it was a major part of the New Deal and Keynesian economics. In early years, neoliberal critique of the framework in the form of writings of Ludwig von Mises, Friedrich Hayek, and Karl Popper is axiomatic for the fact that anything within this framework would not exist in the new hegemonic economic ideology (see Jones, 2012, p. 85). These neoliberal critiques later amplified in the US at the University of Chicago where Milton Friedman became the leading critique of Keynesian framework and the New Deal (Merino et al., 2010). The Glass-Steagall Act, part of the New Deal, contradicted with what was held and promoted as common sense by the new hegemony that was taking shape within the neoliberal intellectual community. It did not fit in the neoliberal worldview that emphasized "efficiency of market competition, the role of individuals in determining economic outcomes, and distortions associated with government intervention and regulation of markets" (Palley, 2004). Therefore, neoliberal intellectuals argued against the idea that excessive competition was the reason for the Great Depression, and towards the regulatory reforms that succeeded the depression. These assaults on restrictions on financial competition due to the Glass-Steagall Act highlight the "change in attitude towards competition in finance by the economics profession, and especially by political policy makers as part of their overall changed ideology leading up to neoliberalism" (Campbell & Bakir, 2012, p. 534). Therefore, when the economic profession were in favor of the competition, it became clear that there were no room left for any sign of preceding ideology, may it be Glass-Steagall or any traces of it that were against the free market competition.

Second, neoliberalization as policy and program refers to transfer of ownership from public sector to private in an assumption that such transfer would lead to efficient market system (England & Ward, 2007). However, the opposite was true with the Glass-Steagall Act. Before Glass-Steagall Act, there were no specific legal restrictions to the existence of bank affiliate organizations designed to underwrite new security (Ang & Richardson, 1994, p. 356). Nevertheless, after the enactment of the Act, transfer of regulatory ownership of the financial industry moved from private to public sector. Intervention to regulate the banking industry directly conflicted with the neoliberal logic that "financial deregulation was an extreme manifestation of the neoliberal faith in markets" (Jones, 2012, p. 341).

The failure of the market in large part was the result of "weakness in financial supervision and regulation by flawed system, operating under an outmoded conception of systemic risk" (Banker, 2010). Under the circumstances, government intervention would be considered a normal course of action. Nonetheless, the government intervention is against the third understanding of neoliberalism. England and Ward (2007) write that neoliberalism as a state form is "quantitative and qualitative restructuring of nation-states, involving redrawing the boundary between civil society, market, and state". Qualitative restructuring is adjusting to a degree to which a state shapes tendencies of an economic ideology, and quantitative restructuring is reconfiguring the function of state (England & Ward, 2007, p. 15). Nevertheless, with the Glass-Steagall Act the degree to which the state infiltrated the financial sector was preposterous in neoliberal sense. Therefore, in order to implement neoliberal economic structure, neoliberal advocates needed to deregulate the financial sector, which was only possible with quantitative and qualitative restructuring.

Finally, Glass-Steagall Act also had contrasted with neoliberalism as governmentality. Governmentality is reworking the relationship between the state and the people under such market conditions where latter is expected to be independent by reaping the benefits provided by the market (England & Ward, 2007). Neoliberalism underscores the belief that "when personal and individual freedom in the market place is guaranteed, each individual is responsible and accountable for his or her own actions and well-being" (Harvey, 2005). Whereas, after 1933, Glass-Steagall Act challenged this belief as it highlighted that freedom to deal in securities gave room for "recklessness, cronyism, and fraud both in the use of depositor funds and in the promotion of securities for sale to the public" (Lardner, 2009). However, on the neoliberal side, the argument was that the Act that created the uncompetitive market increasing service cost in investment banks, which substantially disadvantaged the economy.

If we look at these comparisons, the Glass-Steagall Act was a product of the competing ideology that neoliberalism was trying to replace. For neoliberals, New Deal and Keynesian economic framework not just gave in the regulatory power in the hands of public sector, but also substantially increased quantitative and qualitative power of government over market allegedly crushing individual freedom in the process of saving the market. On the other side, at empirical level, capital class was losing the opportunities to maximize their profit for being deprived in securities dealing, and they were not able to capitalize the opportunities of financial innovations that were taking place after the 1970.

Thus, it was obvious that once the market order would restore after Great Depression, the capitalist class with their neoliberal policies and programs would go on with hegemonic process. As a first step to the process, they would create popular consent enough to propel enough political backings. Once they would succeed in generating enough public and political consent, they would repeal the Glass-Steagall Act and bring down the barriers for financialization.

By early 1970s, the belief that "privatization and deregulation combined with competition… eliminates bureaucratic red tape, increase efficiency and productivity, improve quality and reduce costs, both directly to the consumer through cheaper commodities and services and indirectly through reduction of the tax burden" had gained prominence (Harvey, 2005, p. 65). The financial and economic events during the1970s gave the opportunity for this ideology to materialize in the US. Harvey (2005, p. 14) writes, "the crisis of capital accumulation in the 1970s affected everyone through the combination of rising unemployment and accelerating inflation". These changes were mainly due to the increase in international trade and imports, financial liberalization and innovation and labor market deregulation (Hein et al., 2014, p. 7). Whatever the reasons were, these changes discredited the Keynesian model that was proven successful after the Second World War (Lavelle, 2013, p. 101). Furthermore, in order to reduce the inflation, the Federal Reserve implemented the monetary policy that gave away the principles of the New Deal (Harvey, 2005, p. 23). This economic changes were seen as an opportunity by the neoliberal advocates who pointed the government interference in the economy as source of all problems (Centeno & Cohen, 2012). Therefore, as the neoliberal belief already had gained prominence and was readily available for the disposal, Lavelle (2013, p. 102) writes, "the ensuing period of sluggish economic growth, rising unemployment, and poor profitability jolted governments into enacting neo-liberal measures to try to wrench the system back into higher growth and fatter profits".

Now, neoliberal intellectuals needed to bring the Glass Steagall Act at the center of the debate, which they did. Norton (1987, p. 334) writes, "beginning in the 1960s, increasingly in the 1970s, and with greater acceleration in the 1980s, regulators and courts began directing their attention to the Act" resulting primarily in the rise of bank deregulation and increasing competitive environment among financial institutions. They generated enough public opinion against the popular Act, and the consent to repeal it. They used their publications, media houses, endowed education centers and basically and everything that would generate public interest in the debate against the Glass-Steagall Act to promote ideology of free markets.

> …an ideology of free markets… had been around for most of the century. It only spread after the 1970s, and, I argue, was promoted to justify deliberate efforts of the financial institutions to loosen regulations, many of which had been in place since the Great Depression, and thus increase profits. A key regulation was the Glass-Steagall Act of 1933, which separated commercial and investment banking (Perrow, 2011, p. XI)

Although the Glass Steagall Act was the savior of the banking industry post Great Depression, it was not the favorite regulation of the financial class. They had to accept it as the economic tide was against them, and the political class was not very supportive. The regulation had decreased the profitability of the financial sector giving them strong motivation to repeal the Act. Therefore, they opposed it with free market rhetoric, and later materializing it in a long process after the neoliberal turn of the 1970s.

In this chapter, I highlighted the conditions for the enactment of the Glass-Steagall Act and also highlighted its provision. I also highlighted the neoliberal motive for the repeal of the Act by presenting it as an ideological opposition of neoliberal hegemony, and by presenting its enactment as detrimental to the profit maximization agenda of the capital class. In the next chapter, I will present how numerous attempts were made by the state with its legislation to erode and repeal the act, and how neoliberal intellectuals at both political and civil society generated public opinion to reinforce these attempts.

Chapter 5- Creating Consent for the Repeal of the Glass-Steagall Act

> "A successful ruling class is one which before actually obtaining political power has already established its intellectual and moral leadership" (Joll, 1977, p. 100).

It was necessary for the ruling class to establish its intellectual and moral leadership over the preceding class. To be able to achieve this, it was necessary for the capital class to design an offensive against the Glass-Steagall Act and the circumstances it was enacted by mobilizing their intellectuals. Therefore, their first task was to make 'repeal of the Glass-Steagall Act' a common sense. They did it by writing off the importance of the Act and nullifying the reasons that underpinned its existence, which was achieved by broadening the discussion against the Glass-Steagall Act with all the empirical evidences at political and economic arenas. By the end of 1990s, the idea of repealing the Act became a common sense. In this chapter, I will provide evidences to show how neoliberal intellectuals were active to establish intellectual and moral leadership. To this end, I will highlight some literature from public policy arena and academic sector that diffused this common sense.

By the 1970s, both political and economic sector started the rhetoric that excessive regulation and needless barriers to competition had become a burden to the financial system. People had started recognizing that "the collapse of the banking system had more to do with policy blunders on the part of the Federal Reserve than it had to do with some element of inherent instability in the banking system or with the integration of commercial and investment banks" (Cargill, 1988, p. 27). This was made possible by the neoliberal offensive against the old ideology and its elements.

> …the successful neoliberal assault on the restrictions on financial competition to recognize the change in the attitude toward competition in finance by the economics profession, and especially by political policy makers as part of their overall changed ideology leading up to neoliberalism. Earlier many members of both of these groups had felt that "excessive" financial competition had made a significant contribution to causing the Great Depression. By the 1970s, almost all government studies on financial reform held that the system was crippled by "needless barriers to competition" and "serious . . . anticompetitive situations (Campbell & Bakir, 2012, pp. 534, 535)

The neoliberals firmly organized the political class and with it, it started a debate in the political society to deregulate the financial system. With a control of overarching economic ideology over political and economic environment, all they needed to do was slowly erode and finally hammer the act.

In this attempt, there were multiple push for the reforms, the commission on Money and Credit, the Heller Committee, and the Hunt Commission followed by the proposed Financial Institution Act (FIA), the Financial institution and the National Economy Study (FINE) and Financial Reform Act (FRA) advocated major reforms in the Act (Phillips, 1979). In terms of public policy arena, Hunt commission (President's Commission on Financial Structure and Regulation 1971) and the FINE Study (U.S. Congress 1976) were major recommendations against the provisions of the Glass-Steagall Act (Campbell & Bakir, 2012).

Hunt Commissions recommendations were based on the neoliberal assumptions. It assumes that most of the financial problems during the period were due to the legislation enacted in response to the Great Depression (Luttrell, 1972, p. 8). Therefore, the objective of the commission's recommendations was to seek freedom of financial market and increase competition purely based upon the belief that private financial institutions can best serve the public in free and competitive market framework (Benston, 1972; Luttrell, 1972; Peltzman, 1972). The proposed recommendation of the Hunt Commission would have significantly reduced the separation that existed between financial institutions in the US financial system (Jaffe, 1972, p. 990). However, since the report had so much faith in the free market, it did not even consider to give any research findings or theory to support their free market assumption or the recommendations (Benston, 1972). Moreover, despite recognizing these limitation of the recommendations provided by the Hunt Commission, academics, nevertheless, supports the recommendations just because they seek to minimize the legal and regulatory barriers and place more faith in market forces, and in some cases, they even comment that the recommendations were not enough to move towards free market philosophy (see Benston, 1972; Horvitz, 1974; Roland, 1972).

The Hunt Commission was composed of "ten executives of financial agencies, six executives of other firms, two academic economists, one labor union leader, and an attorney-politician" (Luttrell, 1972, p. 8). Since the objective of this team was "to move as far as possible toward freedom of financial markets" (Luttrell, 1972, p. 8), it is axiomatic that the team behind the Commission functioned as intellectuals of the neoliberal class. They implicitly worked towards establishing common sense against provisions of Glass-Steagall act.

Similarly, FINE study also had a similar theme and pattern as that of Hunt commission. However, this one was more thorough and well researched as each of its recommendations were independently studied (Pierce, 1977, p. 607). At first stage, the purpose of FINE study was to produce recommendation for financial reforms by stimulating the comments from affected group and from unbiased sources- primarily academicians, and at second stage, the idea was to develop a financial legislation (Financial Reform Act 1976) based on the recommendation (Pierce, 1977, p. 606). Unlike Hunt commission, it highlights the anticompetitive situations due to US banks being strictly regulated compared to foreign banks. FINE study highlighted that as the restrictions of the Glass-Steagall Act were applicable to the domestic banks but not to the foreign banks (operating in the US), the former were in detrimental conditions compared to the latter (U.S. Congress, 1976, p. 3).

Though it argues to bring the foreign banks operating in the US under the restraints of the Act, it implicitly also argues that to increase competitiveness of the domestic banks, congress must amend the Act.

> A few bankers have expressed the opinion that these competitive advantages should result in similar advantages for domestic institutions — that rather than dismantle and restrict the multi-State operations of foreign banks, the regulatory authorities might propose that Congress open the door for nationwide branching by domestic banks and amend the Glass-Steagall Act to permit commercial banks to deal in securities (U.S. Congress, 1976, p. 20)

As Hunt Commission, the committee of FINE study also was mostly composed of either people from financial agencies or academics closer to the market philosophy. It was banking committee, which commissioned its own study and drafted its own financial legislation without the participation of independent agencies, interest groups or political entities (Pierce, 1977, p. 606).

Similarly, between 1970 and 1999, there were numerous attempts to repeal the Glass-Steagall Act, but none of them had succeeded (See Campbell & Bakir, 2012; Cargill, 1988; Hendrickson, 2001). Especially after 1970, there also were initiatives from the commercial and investment banks to challenge the Glass-Steagall barrier in the courts or before the regulatory agencies (White, 2010, p. 940). These attempts, though were unsuccessful to repeal the act, after the mid-1980s, there were numerous innovations and proposals made by the bankers that were accepted by the Federal Reserve Board, specially under Alan Greenspan, which undermined the provisions of the Act.

In 1984, Federal Reserve Board loosened the provisions of the Act to allow commercial banks to earn revenue up to 5 percent of gross revenue from investment banking activities (PBS Frontline, n.d.). In 1986, it allowed subsidiaries of bank holding companies that were underwriting US government securities to underwrite certain ineligible securities without exceeding the revenue limit (Mester, 1996, p. 5). In 1987, it took advantage of the poorly defined terms- "engaged principally" and "primarily engaged" in the Glass-Steagall and reinterpreted these terms as the Act allowed a bank holding company or its nonbank subsidiary to engage in nonbanking activities, including securities activities, under the condition that the Federal Reserve determined that the activities were "closely related to banking." (Barth et al., 2000). Therefore, one of the major changes came in 1987 as Federal allowed commercial banks with the acceptable risk-management infrastructure and control in system to seek approval to use holding-company subsidiaries to engage in limited underwriting and dealing of securities under newly reinterpreted Section 20 of the Act (Sicilia & Cruikshank, 2000, p. 90).

In 1987, acting on the proposals from Citicorp, J.P. Morgan and Bankers Trust, Federal Reserve Board voted on favor of easing the regulations under the Glass-Steagall Act allowing banks to take part in securities trading activities, which included commercial paper, mortgage-backed securities, and municipal revenue bonds (Lardner, 2009). Again, in the same year, the board approved application of Chase Manhattan Bank to engage in underwriting commercial papers (PBS Frontline, n.d.). In 1990, the JP Morgan became the first bank to receive permission from the Federal Reserve to underwrite securities (PBS Frontline, n.d.). Later in 1996, the ceiling for commercial banks to earn revenue from investment banking activities was raised again to 25% of their gross revenue (Crawford, 2011, p. 129).

Similarly, there was indirect enervation to the Act as financial institutions called "nonbanks banks" started to develop. These institutions would exist outside the framework of the Glass-Steagall Act to do what the Act restricted to do. This undermined the Act indirectly. Nonbanks banks were non-FDIC insured financial institutions "that looked and felt like banks, but were technically deemed non banks" (Ritholtz, 2012). The financial class created these institutions, and the Chairman of FDIC, William Isaac allowed these institutions to do what the Glass-Steagall Act disallowed banks to do (Ritholtz, 2012). Later, William Isaac in his paper suggested that since there was enough effort by securities firm to enter banking through back door by acquiring nonbanks, there is no point in prolonging the Act to have rigid regulations (see Isaac & Fein, 1987). Moreover, in 1988, the senate approved the Proxmire Financial Modernization Act to create a framework for the expanded securities activities of these banks with the concept of a separate affiliate (Isaac & Fein, 1987, p. 302). This Act would have allowed bank holding companies to acquire nonbanks affiliates, but it failed to survive the house Energy and Commerce Committee (Sullivan, 1995).

All of these changes were the result of multimillion-dollar lobbying effort by the commercial banking industry, which began in the early 1970s through to the end of 1990s (White, 2010). Most persistent lobbying came from large commercial banks and large securities firms who were in favor of regulatory changes (Banker, 2010; Hendrickson, 2001). However, Federal Reserve chairman Paul Volker had been against these changes in the provisions of the Act. He feared that giving away the wall created by the Act would recreate the conditions where "lenders will recklessly lower loan standards in pursuit of lucrative securities offerings and market bad loans to the public" (PBS Frontline, n.d.). Despite his reservation, the members had voted in favor of loosening the provisions of the Act (PBS Frontline, n.d.). Especially, the loosening of the Act had started when Alan Greenspan replaced Volker and became the Chairman of the Federal Reserve.

Despite multiple attacks against the Act by the financial institutions, the condition to fully repeal it had not been created. The Act was still popular among the public. This popularity can be reflected in the reluctance of congress in hearing the multiple pleas asking to repeal the Act made by the banks and their regulators (Isaac & Fein, 1987, p. 282). Norton (1987, p. 368) in his paper concludes, "…as congress and the bank regulators presently refocus on the "safety and soundness" of the banking industry in the light of increasing financial institution failures… the Act will remain substantially intact". Under these conditions, the following holds true.

> Between the economic structure and the state with its legislation and its coercion stands civil society… The state is the instrument for conforming civil society to the economic structure, but it is necessary for the state to "be willing" to do this; i.e. for the representatives of the change that has taken place in the economic structure to be in control of the state" (Gramsci, 1971, p. 208).

As there was no grassroots constituency support against its repeal, Congress did not tamper with the Act. It had not gained enough attention of the voters as a political issue (Isaac & Fein, 1987, p. 291). Therefore, it was necessary for the financial class to reinforce its campaigns to make the state be willing to repeal the Glass-Steagall Act on two fronts. First, it needed public support against the Act so that the state would be convinced to repeal the act, which needed the academic sector to highlight the obsoleteness and redundancy of the Glass-Steagall Act. Second, the class needed its intellectuals within the framework of state to stimulate process to repeal the Act from within. Henceforth, I will highlight the first, and the second will be covered in the next Chapter.

One of the main things that underpinned the repeal of the Act was the increasing weight of empirical evidence generated by academics against previously established facts that had made commercial banks securities activities responsible for the banking traumas of the Great Depression (Barth et al., 2000, p. 192). It generated enough public support forcing the political class to coerce change. I will highlight some of the arguments made by academics that dismantled everything that was erected as common sense during the enactment of the Act in the 1930s. These arguments started new discussions that diminished the previously held belief about Glass-Steagall Act, and generated grassroots constituency support for its repeal. Explaining these papers in detail is beyond the scope of this thesis. What can be said for certain is that they were important in undermining the Act. Henceforth, I would like to highlight the contribution made by these academics in the repeal of the Act.

George Benston has been a major contributor to the intellectual discussion in undermining the reason for which the Glass-Steagall Act was enacted. He largely provided intellectual contribution in favor of deregulation the US financial market (Saunders, 1991, p. 798). Benston (1990) justifies that the reason for the separation of commercial and investment banks did not hold any substantial weight. He shows that restricting commercial banks in securities dealing were either a way to strengthen the position of investment banks or was panic driven reaction to the financial crisis of the 1930s. He therefore concludes that the Glass-Steagall Act should be repealed and banks should be allowed to offer full financial services. Similarly, Ang and Richardson (1994) write, "Glass-Steagall was passed through the Congress of the United States on a wave of virulent, anti-commercial bank sentiments grounded in popularly perceived abuses of power by the underwriting affiliates of commercial banks". They argue that the sweeping allegations that led to erection of firewall between commercial and investment bank does not hold sufficient significance. Ang and Richardson (1994) conclude that there is no evidence that can be used as justification for separation of commercial banks and investment banks.

Kroszner and Rajan (1994) refutes the conflict of interest theory that was presented as a reason for need of separation between investment banks and commercial banks. This theory was highly regarded by the scholars and government reviews at the time of Great Depression. They conclude that their finding was inconsistent with the popular belief that securities of unsound and speculative nature were underwritten and sold by the bank affiliates. Moreover, they make a case in favor of repealing the Glass-Steagall by suggesting that "the failure rate of bonds placed by a banker affiliate was no higher than that of bonds placed by an investment bank syndicate" (Ramírez, 1999, p. 373). They also provide with the possible solution if a conflict of interest arises. Kroszner and Rajan (1997) argues that internal organization structure can be sufficient to address the kind of conflict of interest highlighted post Great Depression, and the regulation like Glass-Steagall Act would not be required as internal organization of the firm is sufficient in playing an important role to maintain quality of business practices. Kroszner and Rajan (1997, p. 511) conclude, "if the financial markets are competitive and externalities …are small, banks naturally evolve towards the desired structure" that would address the regulatory concern of conflict of interest. Randall S. Kroszner and Raghuram Rajan have been closely associated with the University of Chicago booth school of business (ChicagoBooth, n.d.). Moreover, Rajan later became Chief Economist and Director of Research at the International Monetary Fund (International Monetary Fund, n.d.), one of the institutions that took neoliberal policies to global scale (Cox, 1993) whereas, Kroszner was appointed as the member of Council of Economic Advisors [CEA] under the presidency of George W. Bush (The White House, n.d.). Association of these academics with the hegemonic class justifies "organic quality" of these authors.

Puri (1996) provides evidence against the proponents of Glass-Steagall Act and argues that the underwritings of commercial banks were of higher value. This finding was against the popular belief after the Great Depression. She claims that her findings question the overall motivation of the Glass-Steagall Act. Puri (1996) writes that bank underwritings did not have negative consequences because of conflict of interest but rather, "bank association with security underwritings added value to the issue". Puri (1999) also tries to address regulatory concerns related to banks getting involved in underwriting securities and potential conflict of interest that arises with that function. She affirms opponents of universal banking [who are in favor of distinction between function of commercial banks and investment banks] that both the commercial banks and investment banks can coexist in an economy without negative consequences. Manju Puri always has been closely associated with the banking and financial system.
Ramírez (1999) reaffirms the claims made against "the hypothesis that commercial banks were systematically fooling investors into buying securities of poor quality". He concludes that the Glass-Steagall Act was more of a problem than a solution considering the cost it introduced to the banking industry. He, therefore, supports the argument that Glass-Steagall Act was enacted to solve a problem that never existed.

White (2010, p. 942), writes "empirical academic research-some as early as 1941 and continuing through the 1980s and 1990s increasingly showed that the pre-1933 mixing of commercial banking and investment banking, which underlay the passage of the Glass-Steagall Act, had little factual basis". Therefore, these arguments were intended to generate opinion against the Glass-Steagall Act.

The evidences suggest that once an ideology becomes a common sense, it does not take long for its followers to try and engrave it in every part of their society. It does not matter if it takes organizing commissions with a sole purpose to advent a new system based on a new belief or organizing the abundance of academic work underpinning an ideology. In the case of the Glass-Steagall Act, the capitalist class mobilized their intellectuals and established offensives against the Glass-Steagall Act from multiple fronts so that they could deregulate the financial sector. Moreover, they established the political class and started a campaign to assimilate the opinion in their favor and to support this effort; they increased the weight from the academic sector against the previously established fact. By the end of the 1990s, they were able to erode the provisions of the Act and achieve flexibility in undertaking limited securities and insurance activities without having much problems attributed to the wider range of permitted activities (Barth et al., 2000, p. 192).

In the next section, I will discuss how intellectuals of the hegemonic class created conditions that favoured the expansion of their class and their agenda from within the system. I will highlight how the state merely remained as subordinated agents of civil society's hegemony, and how it actively reinforced hegemonic idea.

Chapter 6-Role of Intellectuals in the Repeal of the Glass-Steagall Act

By the end of the 1990s, every star aligned for mighty market philosophy. By that time, everyone including Wall Street, lobbyists, leading politicians from both parties, and the business media seemed to agree that there were no other options to deregulation (Scheer, 2010, p. 51). Nonetheless, this alignment was not accidental. It was an effort made by a few neoliberal intellectuals who capitalized on the free market rhetoric. Fontana (2008, p. 86) writes, "they [intellectuals] provide both vertical and horizontal mediation… within both political society and civil society, intellectuals acts as agents of reciprocal communication; they simultaneously connect civil society with political society". These intellectuals played an important role in convincing civil society and especially political society that Glass-Steagall is a burden to the economy, and its regulatory functions are better performed by self-regulating free market. Under these circumstances, there was nothing that could have saved the Glass-Steagall Act. Therefore, as Cassidy (2008, p. 2) states, financial class and their intellectuals, together with congress and the executive branch conspired to weaken the federal supervision of the financial system eventually repealing the Glass-Steagall Act. This was led by Federal Reserve Chairman Alan Greenspan, and Secretary of Treasury, Robert Rubin within Clinton Administration (Cassidy, 2008, p. 2). The battering on the Act in the US Congress was executed by Republican Senator Phil Gramm (Stiglitz, 2009). There are many others who directly or indirectly participated in the deregulatory agenda. Nonetheless, in this chapter, I will elaborate on the roles of a few specific intellectuals, especially Greenspan. In the process, I will highlight their organic quality, and their contribution towards the process that finally led to the repeal of the Glass-Steagall Act.

In the 1980s, when 'Reagonomics' had absorbed the country and had dominated the public consciousness, the regulators were encouraged to stay away and use leniency in the private markets (Sherman, 2009, p. 7). Under this circumstance, it was critical that the ones who were eager to push the deregulatory agenda replaced the proponents hesitant to participate in free market euphoria. The time was such that status quo was not an option nor was the advocacy of it. Important government positions were filled with the intellectuals of the hegemonic class who were thinking and organizing element of the capitalist class. As these neoliberal vanguards took their respective positions, over the 1980s and the 1990s, they used the deregulatory rhetoric followed by action within their respective domains.

> Organic intellectuals are thinking and organizing element… distinguished less by their profession, which may be any job characteristic of their class, than by their function in directing the ideas and aspiration of the class to which they belong (Gramsci, 1971)

Among all the people, Alan Greenspan played a prominent role in directing the ideas and aspiration of deregulating the financial system by repealing the Glass-Steagall Act. There were numerous efforts by the financial institutions, mostly big commercial banks. However, despite occasional leniency, the Federal Reserve under Volcker resisted pressure to accept proposals for easing the provisions of the Glass-Steagall Act (PBS Frontline, n.d.). Moreover, he had implemented the anti-inflationary policies in 1979-80 that had reduced the profitability of commercial banks (Hein et al., 2014, p. 44). Nonetheless, since the emerging economic ideology, popularly termed 'Reaganomics' at the time, strongly advocated deregulation, status quo was unacceptable for the Reagan Administration (Stiglitz, 2009). Therefore, in 1987, the Reagan Administration replaced Volcker with the advocate of deregulation (Stiglitz, 2009)- an organic intellectual who was extremely sympathetic with the neoliberal ideology and tied with the hegemonic class.

In the words of Kevin Rudd, Greenspan is "the great neo-liberal ideological standard-bearer" (Rudd, 2009). He was a devoted free-market capitalist who believes in small government and emphasizes free markets and private initiative (Jones & Bartel, 1994, p. 19). Moreover, he had high faith on self-correcting aspect of the market. Therefore, during his time as Chairman, he strongly advocated in favor of deregulation (see Greenspan, 2008; Sherman, 2009). Moreover, he was closely associated with the financial class. Before he became the Chairman of the Federal Reserve, he was the director of JP Morgan Bank. The bank had a strong incentive in repealing the Glass-Steagall Act as it was most adversely affected by the wall between commercial banks and investments banks (Tabarrok, 1998). Greenspan (2008, pp. 78, 79) writes, "among all boards I joined, JP Morgan's was the one that I found most engaging… being on the Morgan Board was a wonderful opportunity to learn the inner workings of international finance". Interestingly, JP Morgan became the first bank to benefit from the appointment of Greenspan, as in 1990, it became the first bank to receive permission from the Federal Reserve to underwrite securities (PBS Frontline, n.d.). Greenspan's ideological stance and his relationship with financial class highlight his organic quality.

As an organic intellectual, it was Greenspan's responsibility to convert the traditional intellectuals and turn the political arguments in favor of his class. As Gramsci's intellectuals, he had a mediating function in the class struggle for hegemony, and in exercising the subaltern functions of social hegemony and political government. Therefore, immediately after Greenspan's appointment as Federal Reserve Chairman, the wall between commercial banks and investment banks started to crumble down (Lardner, 2009). Stiglitz (2009) writes, "Greenspan played a double role… if you appoint an anti-regulator as your enforcer, you know what kind of enforcement you'll get".

Greenspan played the major role in pushing the repeal of the Glass-Steagall Act. Both while testifying in congress and making public statements, he pressed for broader reform in the banking sector by repealing the Act (Lardner, 2009; Ritholtz, 2012). He constantly argued that the competitiveness of the US financial sector in the international arena could only be maintained by increasing scale and scope of the banking sector (Calomiris, 1998, p. 47). Greenspan's position in the Glass-Steagall can be better highlighted as he later wrote, "legislators and regulators rush to promulgate new laws and rules in response to market breakdowns… the Glass-Steagall Act, which in 1933 separated the business of securities underwriting from commercial banking, was based on faulty history"(Greenspan, 2008, p. 375). In November 1987, immediately after his appointment, he testified before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance, Committee on Banking, Finance and Urban Affairs, United States House of Representatives.

> Our own analysis of the broader proposals leads us to the conclusion that they have many positive elements that deserve continuing attention, but that it would be appropriate at this time to concentrate attention on the specific suggestion to repeal the Glass-Steagall Act. It is our view that this action would respond effectively to the marked changes that have taken place in the financial market place here and abroad, and would permit banks to operate in areas where they already have considerable experience and expertise. Moreover, repeal of the Glass-Steagall would provide

> significant public benefits consistent with a manageable increase in the risk. Accordingly, we would suggest that the attention of the Committee should focus on the Glass-Steagall Act and we recommend that this law should be repealed insofar as it prevents bank holding companies from being affiliated with firms engaged in securities underwriting and dealing activities (Greenspan, 1987)

The urgent nature of his words, and his desperate appeal to prioritize the repeal of the Glass-Steagall Act towards the political society highlights the organic nature of this intellectual. Gramsci (1971, p. 10) suggest that sooner the conquest over the traditional intellectuals and their ideology is made, the better the chances for the new hegemonic system. In most of his testimonies, beginning his term till the Act is repealed, he highlighted the urgency to repeal the Act (see Statements and Speeches of Alan Greenspan, n.d.). The Federal Reserve, under the leadership of Greenspan, continued to push the committee and the congress as he continuously testified for the legislative change (Greenspan, 2008, p. 376). In 1992, in a statement to the congress, Greenspan strongly argued in favor of the banking institutions and their preparedness to start securities activities.

> Banking organisations are in a particularly good position to provide securities underwriting, insurance, and other financial services to investors. They are knowledgeable about the financial needs of their customers, and operate from locations that are convenient for the public (Greenspan, 1997)

Greenspan knew how to overcome Congress's fear of change. He used his skills to shift the burden of proof to suit his argument. Calomiris (2006, p. 170) writes, "he used gradualism to compromise with worrisome critics, and build a record of performance on which to base further relaxation of constraints". This relationship took the deregulatory agenda of the financial class to the next level. However, the sought change was not possible without the support of the Clinton Administration. There was much needed to be changed.

Therefore, besides congress, Greenspan had been pushing the idea of deregulation within the newly elected Clinton Administration. Despite being a republican, he had not just managed to remain the Chairman of the Federal Reserve in the Clinton administration, but also managed to convert Clinton to his free market philosophy (see Jones & Bartel, 1994; Woodward, 2001). Woodward (2001, p. 101), for instance, writes “his [Greenspan’s] impact on the new Democratic president was real and positive — a degree of influence he had not begun to approach during the more than five years he had been chairman under Reagan and Bush”. His relationship with the Administration is such that, according to Peck (2004, p. 393), “a growing body of work is portraying the Clinton-Greenspan decade of the 1990s in parallel terms, and in so doing persuasively reimporting the concept of neoliberalism to the United States, where previously it has had little currency”. The relationship between the White House and Federal Reserve was at its best during the respective leaderships of Clinton and Greenspan. Secretary of Treasury, Robert Rubin within the Clinton administration, greased this relationship between Clinton and Greenspan.

Robert Rubin advocated for the repeal of the Glass-Steagall within Clinton administration. Before joining the administration, Rubin was a multimillionaire co-chairman of Goldman Sachs, who had spent most of his career on Wall Street (Woodward, 2007). He had started as a trader in Goldman Sachs that he helped transform from an investment bank to a financial dominance (Cohan, 2012). After leaving the office as Treasury Secretary in 1999, few months before the repeal of the act, he would join Citigroup as co-chairman with annual remuneration of $15 million (Cohan, 2012). Therefore, he was tightly knitted with the financial class. In an answer to the question if “he was motivated by a desire to serve the people, or an opportunity to serve himself and his friends”, Cohan (2012) summarizes that people like Rubin will Act selfishly and selflessly advancing the whole societies and their own interest. Even Rubin had clearly intended to be an intellectual and a banker serving interest of both the market and the government (Cohan, 2012).

Ireland (1997) writes that Rubin should go down in history as the father of bank deregulation. This might be too far fetched. However, during his years as Treasury Secretary in Clinton Administration, he highly advocated “for bigger and more diversified banks in the name of American global competitiveness” (Lardner, 2009). Besides continuously pushing for the deregulation, more important job Rubin performed was to maintain the trust of the Administration in favor of Greenspan, deregulation and market philosophy.

> Forged in the crucible of the nerve-racking bond arbitrage market on Wall Street, the 55-year-old Rubin had advised the president to hold Greenspan even closer…. Rubin

> had built a strong relationship with Clinton, and he… had also argued successfully to the president that the administration would topple itself if it were perceived to be anti-business and anti-Wall Street (Woodward, 2001, p. 117)

On February 27, 1998, Rubin officially proposed the repeal of the Glass-Steagall Act, and the reason for such action, he stated, was aligned with the administration's effort to increase competition by allowing banks to diversify into new industries producing a robust banking industry (Korten, 2010, p. 84; The Baltimore Sun, 1995). Newly released documents from the Clinton Administration suggest that the Wall Street deregulations were widely pushed by Clinton's advisors led by Rubin (Roberts, 2014). There was a series of memos pressuring Clinton to deregulate Wall Street. In one of the memos to the president, in favor of Financial Modernization Act of 1999 (also known as Gramm-Leach-Bliley Act) that repealed Glass-Steagall Act, Rubin writes

> …the treasury has carefully reviewed the political and policy issues relating to modernisation of financial services regulation. We have conferred with a range of experts on the subject and met with dozens of associations representing the views of providers and users of financial services. I believe that our proposal, although controversial in some respects, strikes a reasonable balance among the competing interest and policy considerations (Memo from Rubin in Roberts, 2014)

Roberts (2014) argues that the purpose of these memos was to assure Clinton that he should not pay attention to details in the matter as the Department of the Treasury has been taking the needed initiative. Roberts (2014) suggests that if we analyze these memos more closely, it will be clear how there was very little discussion on internal opposition to the repeal of the Glass-Steagall Act. Rubin, after the Global Financial Crisis, agreed that he had advocated and pushed for the repeal of Glass-Steagall Act. Nonetheless, in his defense, he said that due to slow erosion of the Act, there were not many restrictions left, and doing away with it would have eradicated the hassles that banks had to go through to get into securities dealing, which with or without the Act would have been possible (Cohan, 2012).

In the early 1990s, Greenspan clearly had stated that further expansion of the Section 20 of the Act would require congressional action, and the Federal Reserve refrained from moving ahead with further expansion of bank power as the idea received negative reaction in the congress (Calomiris, 2000, p. xxv). However, things changed as Phil Gramm took over the chair of the Senate committee. Phil Gramm stands out as a perfect example of an intellectual who Gramsci (1971) defines as the one who joins the political party of a hegemonic class and merges with the organic intellectuals of the group itself.

Gramm, initially a Democrat who joined Republican Party in 1983, was an outspoken critic of the government intervention in the marketplace (Lipton & Labaton, 2008). His close connection with the financial class is highlighted by the fact that his campaigns were widely funded by the class. From 1989 to 2002, he was "the top recipient of campaign contributions from commercial banks and in the top five for donations from Wall Street" (Lipton & Labaton, 2008). Moreover, he is the husband of Wendy Gramm- a true believer of Reagan Revolution. Wendy Gramm held various regulatory positions during the Reagan Administration, and highly advocated for deregulation (Scheer, 2010, p. 31). Scheer (2010, p. 51) writes, "the amazing power couple Phil and Wendy Gramm would fulfill his dream of destroying New Deal restraints on banks by enacting actual legislation to accomplish just that". However, we will only concentrate on Phil Gramm here. Thus, it is obvious that

> … Mr. Gramm became the most effective proponent of deregulation in a generation, by dint of his expertise [a Ph.D in economics], free-market ideology, perch on the Senate banking committee and force of personality… And in one remarkable stretch from 1999 to 2001, he pushed laws and promoted policies that he says unshackled businesses from needless restraints (Lipton & Labaton, 2008)

Leonhardt (2006) writes that Gramm is among the proponents who advocated "near-religious" belief in the power of the market. Gramm strongly agreed with the argument that policy makers and economists had repeatedly misread events to justify burdensome regulation (Lipton & Labaton, 2008). Apart from continuously lobbying for two decades against the Glass-Steagall by suggesting that the forces of the market had to be free from government interference (Leonhardt, 2006), he played direct role as chairman of the Banking Committee from 1999 to 2001 in writing and pushing through Congress the 1999 repeal of the Act, and for which, the legislation that replaced the Act has his name on it.

The Federal Reserve, Department of Treasury and the Senate Banking Committee were building enough pressure from their respective ends to repeal the Glass-Steagall

Act. These actors made their one final move in the case of agreement between Citicorp and Travelers Group Inc to merge in 1998. The merger would be the one of the largest kind, the kind that Glass-Steagall intended to stop, and the kind which would have been technically illegal (Korten, 2010, p. 84). Nonetheless, the merger, if allowed, would have been one of the much-needed catalysts that would "push congress to amend the law and allow affiliations between bankers, insurers and securities firm" (Cox, 1999). Therefore, there was a strong interest for the deregulation advocates to let this merger happen. Thus, the Clinton Administration and Greenspan approved the merger from their respective end on the basis of loophole they created around the provisions of Glass-Steagall (Korten, 2010, p. 84).

> Before the announcement, the executives of Travelers and Citicorp placed personal calls to Fed Chairman Alan Greenspan, Treasury Secretary Robert Rubin, and President Bill Clinton. They were careful to structure the merger so it conformed to the Fed's interpretation of Glass-Steagall. The deal was technically illegal, but as the law stood, the bank would have two years to divest itself of its insurance business. This did not deter the executives and their regulators. They were so confident that Congress would repeal Glass-Steagall in the meantime that they went ahead with the deal (Sherman, 2009, p. 10)

Hendrickson (2001, p. 872) writes, "the 1998 merger… was simply the last and largest market development that served as evidence of market participants essentially ignoring Glass-Steagall. These market developments certainly weighed on the minds of legislators and engendered a sense of urgency regarding reform".

In November 1999, after a 300 million dollar lobbying effort, the Congress led by Phil Gramm repealed the Glass-Steagall Act (Stiglitz, 2009). Labaton (1999) writes, "the measure, considered by many the most important banking legislation in 66 years, was approved in the Senate by a vote of 90 to 8 and in the House tonight by 362 to 57". President Clinton signed the bill into effect on November 12 and did not refrain from showing gratitude towards Greenspan, Rubin and Gramm (Press Center, 1999). At the signing of the bill, Gramm unwittingly summarizes the neoliberal hegemonic process that finally led to the repeal of the Glass-Steagall Act.

> In the 1930s, at the trough of the Depression, when Glass-Steagall became law, it was believed that government was the answer. It was believed that stability and growth came from government overriding the functioning of free markets. We are here today

> to repeal Glass-Steagall because we have learned that government is not the answer. We have learned that freedom and competition are the answers. We have learned that we promote economic growth, and we promote stability, by having competition and freedom. I am proud to be here because this is an important bill. It is a deregulatory bill. I believe that that is the wave of the future. And I am awfully proud to have been part of making it a reality (Statement by Gramm, Press Center, 1999)

This statement by Gramm highlights how the belief that once held true changes as a new ideology takes over. It highlights the idea inculcating process that happened since the 1930s, which made it possible to establish "government is not the answer" as a new common sense. It also highlights the role of the intellectual, in this case himself, in the process of the deregulation. Similarly, the statement from Lawrence Summers- Secretary of Treasury who had just replaced his mentor Rubin also highlights the similar theme. He states, "this is the culmination of years of effort by many, many people, reflects the work of presidents, Treasury officials, members of Congress, those in the private sector, from both parties, and dedicated professionals, both inside and outside the government… [to find] right framework for America's future financial system". This also highlights the slow erosion of the wrong framework (for Summers) over the period of 30 years.

The role of intellectuals was very important in deregulating the financial industry and repealing the Glass-Steagall act. The role of Greenspan, Rubin and Gramm is an example of few intellectuals who directly contributed to the hegemonic process. They specialized in disseminating and materializing the neoliberal ideology. As Gramsci had highlighted, these intellectuals gave awareness of its function in the economic, social and political arena. All of these intellectuals diffused the deregulatory agenda under free market rhetoric especially in the political society so that political society coerces the change. Nonetheless, this would not have been possible without the changes in the grassroots of the political constituency, which motivated the representative of people in political society to accept change. This process has been long, continuous, and pervasive. Perhaps, intellectuals have been meticulously and relentlessly taking forward the hegemonic process, which explains the survival of neoliberalism despite the recent holdup that the ideology have taken in the form of the Global Financial Crisis.

Chapter 7- Conclusion

Despite the fact that the Glass-Steagall Act was widely despised before its demise by financial sector, politicians and lobbyists (Scheer, 2010, p. 51), it was highly regarded as the savior of the banking industry, and the US economy as a whole after the Great Depression (Ramírez, 1999, p. 372). Moreover, the act helped build US economy until the economic changes around the early 1970s. Economic changes followed by the growth in the financial industries with the innovations made it difficult for the financial industry to operate in the old structure. Therefore, they sought reform in the financial structure arguing that they needed flexibility in regulations so that they could compete in the global market place (Crotty, 2009). However, the underlying argument for the deregulation was driven by the hegemonic process to establish neoliberalism by the capitalist class so that it could facilitate the upward redistribution of the wealth (Harvey, 2005, p. 40). Making neoliberalism a new belief system made this possible.

Gramsci believed that without delegitimizing the dominant belief system of traditional predominant group it is impossible to create "counter-hegemony" and a new belief system (Fonte, 2001). It was important for intellectuals of neoliberalism to do away with the traditional ideas and any sign of the dominant ideology. The Glass-Steagall Act was one of the major symbols that represented the dominant belief system of the hegemonic group after the Great Depression. The sole purpose of the act was to stand as a wall against financial hegemony (Lardner, 2009), and it was necessary for neoliberal intellectuals to delegitimize it. Thus, from the day it was signed into law, financial institutions lobbied for the repeal of the Glass-Steagall Act (Crawford, 2011)

I explored the repeal of the Glass-Steagall Act in the context of and as part of the ongoing process of neoliberalism by using the Gramsci's theory of hegemony. Hegemony, which is a process that continues over a long period of time is made possible by, at one side, intellectuals with the exercise of their proficiency in their respective field, and at another, coerced by the political apparatus and legislative bodies, which is again controlled by hegemonic intellectuals (Gramsci, 1971). Using this as a structure for the paper, I tried to analyze the repeal of the Glass-Steagall Act.

Since hegemony is a long and continuous process (Patnaik, 2004, p. 1122), I structured my study in such a way that it allowed quick glance at the erosion of the Glass-Steagall act over the long time period covering its enactment, opposition with the financialization process, repeal efforts and intellectual reinforcement for the repeal from the academic sector, and from within the political system.

I highlighted the conditions for the enactment of the Glass-Steagall Act and how it diminished the power of the capitalist class. The paper showed that though the financial class would have adversely affected by the new Act, due to lack of political backings, they had to accept the regulation of their industry. But underneath the surface there was ideological struggle between neoliberalism and Keynesian economy (which was hegemonic at the time). The gradual acceptance of neoliberalism after economic changes around 1970s showed that neoliberalism had long won the ideological warfare. All it needed was political backing in order to change the policies in favor of the capitalist class. As I compared the provision of the Glass-Steagall Act with neoliberalism, it contrasted in every way with the free market ideology. It was all that the capitalist class needed to start the rhetoric of deregulation. This was very important for the financial class as the free market rhetoric hid the profit maximization agenda of the capitalist class.

The political backing of the capitalist class was visible as there were numerous attempts by the state with its legislation to erode and repeal the Act. In the meantime, the hegemonic class established its intellectual and moral leadership over the preceding class. The capital class mobilized their intellectuals and established offensives against the Glass-Steagall Act from multiple fronts. They established the political class and started a campaign to assimilate the opinion in favor of deregulating the financial sector. On the other hand, they increased the weight from the academic sector against the established fact underpinning the repeal of the Act. These showed how neoliberal intellectuals at both political and civil society generated public opinion to reinforce the attempts to deregulate the financial market by repealing the Glass-Steagall Act. By the end of the 1990s, they were able to erode the provisions of the Act and achieve flexibility in undertaking limited securities and insurance activities without having much problems attributed to the wider range of permitted activities.

I paid particular attention to the relevance of intellectuals. It was proved that the role of Alan Greenspan, Robert Rubin and Phil Gramm was very important in deregulating the financial industry and repealing the Glass-Steagall Act. The role of these intellectuals stood out as an example of a few intellectuals who directly contributed to the hegemonic process.

The US Congress finally repealed the Act in 1999. The repeal gave the limitless authority to the banking sector with minimal interference from the government. Despite the arguments that this autonomy in the financial sector led to the Global Financial Crisis, and the recent offensives that the neoliberal ideology took, the neoliberal ideology does not seem to have lost its hegemonic status (Lavelle, 2013, p. 100).

The finding of my research is interesting as the hegemonic structure was a match to study the case of the repeal of the Glass-Steagall Act. This proved that the repeal of the Act was part of a hegemonic process. Erosion of the Act provides an account of the rise of neoliberalism as a dominant hegemony. Moreover, Gramsci's notion of 'hegemony' and 'intellectuals' best described the situation as, suggested by Gill (1991, p. 231), it synthesized the interaction of material, institutional and ideological forces to explain the rise of the current ideology. The neoliberal ideology circulated through the corporations, societies, universities, professional associations, media and organization of think tanks to become a new common sense, a common sense that deemed the Act as a barrier to progress. Therefore, the repeal of Glass-Steagall Act was the result of the interaction of intellectuals in the civil and political society to create a hegemonic class, the hegemony of the financial markets and the hegemony of the neoliberal ideology.

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