

Estado da publicação: O preprint foi submetido para publicação em um periódico

# Financeirização do Estado Periférico: O Papel das Hierarquias de Moedas e de Dívidas

Cinthia de Souza

<https://doi.org/10.1590/SciELOPreprints.11063>

Submetido em: 2025-01-13

Postado em: 2025-02-03 (versão 1)

(AAAA-MM-DD)

## **Financialisation of the Peripheral State: the Role of Currency and Sovereign Debt Hierarchies**

Cinthia de Souza<sup>a</sup>

*<sup>a</sup>Department of Economics and Statistics, University of Siena, Siena, Italy.  
Cinthiands@gmail.com. <https://orcid.org/0000-0002-1103-8325>*

**Abstract:** This paper explores the concept and manifestations of state financialization, emphasizing its particularities in peripheral economies. While the state actively fosters financial market development and relies on it for economic policy execution, it is also disciplined by these markets, reinforcing neoliberal constraints that limit policy autonomy and expand financial power. In peripheral states, financialization is deeply shaped by currency and sovereign debt international hierarchies. This mutual dependence creates a contradiction: financial deepening provides risk management tools but simultaneously strengthens global financial hierarchies, to the detriment of peripheral countries.

**Keywords:** Financialization, State, Periphery, Government Debt.

**Resumo:** Este artigo explora o conceito e as manifestações da financeirização do Estado, enfatizando suas particularidades em economias periféricas. Enquanto o Estado promove ativamente o desenvolvimento dos mercados financeiros e depende deles para a política econômica, também é disciplinado por esses mercados, reforçando restrições neoliberais que limitam a autonomia política e ampliam o poder financeiro. Nos Estados periféricos, a financeirização é profundamente moldada pelas hierarquias internacionais de moedas e de dívidas soberana. Essa dependência mútua cria uma contradição: o aprofundamento financeiro oferece ferramentas de gestão de riscos, mas, ao mesmo tempo, fortalece as hierarquias financeiras globais, em prejuízo dos países periféricos.

**Palavras-chave:** Financeirização, Estado, Periferia, Dívida Pública.

### **1. Introduction**

The end of the Bretton Woods system and the subsequent rise of the floating dollar standard are historical milestones often linked in the literature to the emergence of financialisation (Alami et al., 2023; Fine, 2013; Fine & Saad-Filho, 2017; Ivanova, 2013; Lapavitsas, 2014). Financialisation is deeply intertwined with US monetary power, as the global expansion of financial markets is structured around a hierarchy of currencies and debts, with the dollar and US Treasury securities at the top. The literature also highlights a

strong connection between financialisation and the rise of neoliberalism, marked by the ascendancy of Reagan in the US and Thatcher in the UK, alongside the global spread of economic liberalisation policies (Bonizzi, 2013; Fine, 2013; Saad-Filho, 2021). Neoliberal reforms facilitated the worldwide expansion of financialisation, which was both shaped by and enacted through national states according to regional and national specificities.

This article examines how capital discipline, exercised through financial markets, is interconnected with the state, particularly in peripheral economies. By integrating different strands of literature, it contributes to a broader understanding of the topic. While much of the financialisation literature focuses on its effects on private firms and households, the state's role remains relatively underexplored (Karwowski, 2019; Schwan et al., 2021). Karwowski (2019) defines state financialisation as the growing influence of financial logic, instruments, and accumulation strategies on state activities. Santos (2023) refines this definition, framing state financialisation as a mode of governance in which financial tools and markets serve as instruments of statecraft, reinforcing the financial sector's power. A deeper understanding of state financialisation requires considering how finance not only empowers states but also disciplines them. Building on the work of authors such as Sotiropoulos et al. (2013), Alami (2018), and Vasudevan (2024), this article highlights the central role of government debt in both strengthening financial markets and being constrained by them.

Research on state financialisation has largely focused on advanced economies, with less attention given to its specific dynamics in peripheral countries. A key exception is Santos (2023), who argues that state financialisation in the periphery takes a subordinated form. This paper builds on that perspective by further engaging with the literature on currency hierarchy (Andrade & Prates, 2013; Palludeto & Abouché, 2016) and extending it to government debt hierarchies. In peripheral economies, state financialisation follows a dual process shaped by subordination: while states promote financial market development to mitigate currency and sovereign debt risks, financial markets impose constraints that entrench neoliberal policies, further deepening these states' peripheral position in the global financial system.

The article is structured as follows: The second section discusses financialisation as an organic development of capitalism. The third section develops the concept of state financialisation, framing it as a dual process in which states both empower and are disciplined by finance. The fourth section examines the specificities of state financialisation in the

periphery, emphasising its dependence on international monetary and financial hierarchies. The fifth section concludes.

## **2. Financialisation as an organic development of capitalism**

While financialisation is a widely accepted concept linked to both the collapse of Bretton Woods and the emergence of the neoliberal era, interpretations vary, and significant divergences exist in the literature. A key debate within heterodox studies on financialisation concerns whether finance has a "parasitic" relationship with capital and production or is a fully constitutive element of capitalism. The parasitic view is defended by Carcanholo and Nakatani (2019) and Hudson (2021). Similarly, Magdoff and Sweezy (1987) and Foster and Magdoff (2009) argue that finance operates in opposition to production, leading to stagnation. This paper takes a different approach, asserting that finance is an organic and constitutive element of the capitalist economy.

As claimed by Bryan, Martin, and Rafferty (2009), Braga et al. (2017), and Prado (2014) financialisation is as an organic development of capitalism rather than an external or parasitic force. Rather than opposing production or representing a capitalist distortion, in financialisation, capital appears as finance, with finance absorbing the general characteristics of capital. In contemporary capitalism, "finance is the everyday mask of capital", and financial markets play a crucial role<sup>1</sup> in disciplining economic agents to ensure the reproduction of the capitalist system (Sotiropoulos et al., 2013, p. 139; Alami, 2018). This disciplinary mechanism operates primarily through the pricing of financial assets and the associated risk assessments embedded within them.

Palludeto and Rossi (2022) explain that the price of financial assets is determined by capitalists' evaluations of the expected income flow these assets may generate, discounted to present value using a risk-adjusted interest rate<sup>2</sup>. However, such expectations are not based on neutral interpretations of reality; rather, the valuation process is embedded in power relations. The expansion of financial markets has reinforced financial asset prices as a key

---

<sup>1</sup> The power of capital is expressed in many other spheres, as the military one. Here, the focus is to examine the specific channel of discipline through finance, which in financialised capitalism gains particular importance.

<sup>2</sup> In the Marxist framework, the value of the fictitious capital is determined by bringing to present value the expected future inflow discounted by the risk-adjusted interest rate attributed to it. This process is referred to as capitalization, which coincides with the formation of fictitious capital itself (Marx, 1992).

disciplinary mechanism, aligning diverse economic agents and regional economies with neoliberal ideology (Alami, 2018; Sotiropoulos et al., 2013). In other words, "the valuation process carried out by financial markets has important consequences for the organisation of capitalist power relations" (Sotiropoulos et al., 2013, p. 2). Since financial asset prices are based on expectations about the future, risk assessment plays a central role in shaping both asset values and their disciplinary function.

As argued by Sotiropoulos et al. (2013), financialization coincides with the emergence and diffusion of an interpretation of reality from the viewpoint of risk to several economic agents. The development of financial innovations, such as derivatives instruments, made it possible to assess and turn different events into risks that can be quantified, priced, and traded. The pricing of such risks is not based on a transparent reading of reality, but on a particular comprehension of it that is embedded in the capitalist ideology (Sotiropoulos et al., 2013, p. 161). Supposing an increase in the perceived risk attributed to a financial asset, it negatively impacts the price of such assets by increasing the interest rate which adjusts the expected flow of income resulting from such asset. If this asset is a bond emitted by an economic agent, for example, it means that the agent will face a higher cost of funding, which will discipline the specific agent to act towards improving the risk attributed to its liabilities. In other words, "finance is not so much about forecasting the future but about disciplining the present, even if this passes through the estimation of future outcomes" (Sotiropoulos et al., 2013, p. 113).

Since this study focuses on how financial discipline affects a specific economic agent—the state—it is important to clarify the relationship between financialisation and neoliberalism. Fine (2009) argues that financialisation is embedded in neoliberalism, which in turn is rooted in the ideology of non-interventionism and free markets, shaping the "cultural making" of financialisation. This cultural shaping affects all economic agents, including the state, by fostering a form of self-discipline, conducting them to "voluntarily insure against perceived risks (...) through the mechanisms of the financial markets" (Langley, 2004, p. 552). Despite its ideological emphasis on minimal state intervention, neoliberalism in practice involves strong state intervention "to promote the interests (...) of capital in general and of finance in particular" (Fine, 2013, p. 58).

Neoliberalism is expressed through a set of economic policies that weaken public pension systems, public healthcare, and education, increasing reliance on financial markets for access to these services. It also "flexibilises" labour markets, allowing precarious employment contracts and reducing workers' benefits, imposes rigid controls on public debt and government deficits, leading to austerity and privatisation, and promotes financial market liberalisation and deregulation, granting finance unprecedented freedom and power (Duménil & Lévy, 2001; Fine, 2009, 2013). In sum, "neoliberalism is the expression of the new hegemony of finance" (Duménil & Lévy, 2001, p. 601).

By forecasting the future and quantifying risk, the expansion of financial markets has provided a powerful means of imposing capital's discipline across society. The state plays a fundamental role in this process—not only as a subject of financial discipline but also as an active promoter and enabler of financial market expansion and dominance.

### 3. State financialization: empowering and being disciplined by the finance

Aiming to reach a more delimited and deepened understanding of state financialization, this section will draw upon several literature contributions, integrating different approaches (Alami, 2018; Sotiropoulos et al., 2013; Braun, Gabor, and Hübner, 2018; Santos, 2023; Vasudevan, 2024), and emphasising the centrality of government debt to the phenomenon. State financialization is understood here as a reciprocal relationship between the state and financial markets: on the one hand, the state supports the development and empowerment of financial markets; on the other hand, financial markets discipline the state towards the reproduction of neoliberal economic policies.

Financialised capitalism is fundamentally based on a deep entanglement between private finance and the state. There is a mutual interdependence, as finance depends on the state to reproduce its power, while the state requires finance to conduct its economic policy. This interdependence is mediated by the discipline of financial markets over the state. The development and empowerment of finance are propelled by how states are directed towards a new mode of governance, increasingly carried out through financial markets (Santos, 2023), functioning as financial agents seeking to manage risks (Schwan et al., 2021). This process is referred to by Braun (2020) as "governing through financial markets", wherein public

policy goals are increasingly achieved via financial instruments and markets. The state's dependence on financial markets to conduct its economic policy is a source of power for finance, as the state becomes invested in the stability of these markets to achieve its objectives (Braun, 2020).

These changes in the mode of governance are evident in how the state sets and pursues economic policy goals, such as fiscal and monetary policies, ultimately promoting the growth and power<sup>3</sup> of financial markets. Conversely, the empowerment of financial markets, particularly through the pricing of sovereign risk, disciplines the state towards executing the neoliberal policy agenda. When an event increases sovereign risk, it reflects the financial market's interpretation of reality, which is rooted in neoliberal ideology (Sotiropoulos et al., 2013).

Fiscal policy has become increasingly intertwined with financial markets, shaped by the centrality of risk management concerning the state's assets and liabilities. As argued by Streeck (2014), fiscal policy has become dependent on sovereign debt issuance due to decreasing revenues exacerbated by tax cuts and low economic growth in contemporary capitalism. To manage risks and reduce financing costs, it is vital to create and deepen primary and secondary markets for government securities, as well as promote financial innovations. Consequently, sovereign debt management is grounded in reducing the cost of the debt portfolio, leading the state towards sophisticated financial techniques and innovations, such as derivative instruments, contributing to the liquidity and depth of these markets (Schwan et al., 2021; Trampusch, 2019). The turn of states toward market-based modes of financing also empowers the financial sector, as states may<sup>4</sup> become dependent on private finance's validation of their liabilities to finance spending at determined costs. This dependence on financial markets for fiscal policy makes the state self-interested in improving its risk profile, thus shaping fiscal policy towards austerity measures, privatisation, and the transformation of public goods into tradable financial assets<sup>5</sup>.

---

<sup>3</sup> Braun et al. (2018) denominated "infrastructural power" the process that "operates via policymakers' expectation that curtailing markets will curtail the effectiveness of their own, market-based policy instruments".

<sup>4</sup> This depends crucially on the institutional arrangement of each country and its position on the monetary and financial international hierarchies. Depending on them, the Central Banks can or not be able to contrapose the pressure of financial markets over public securities.

<sup>5</sup> As examples of the turning of public goods into financial assets, Karwowski (2019) evidences the cases of the pension funds and the social and physical state's infrastructure.

Monetary policy reflects how state objectives are intertwined with private finance. In contemporary capitalism, central banks (CBs) have emerged as key institutions in the financialisation process, with their independence from the government coinciding with increasing dependence on financial markets (Lapavitsas, 2014, p. 9). Over time, the tools used by CBs have evolved from interest rate controls and credit ceilings to indirect instruments relying on financial markets as intermediaries (Braun et al., 2018). Repurchase operations, where CBs lend to banks against collateral, have become particularly significant (Ban & Gabor, 2016). Government securities, due to their high quality as collateral, play a crucial role in monetary policy, including repos, open market operations, and unconventional monetary policy. The CBs' reliance on the financial system to conduct and transmit monetary policy enhances the financial sector's power, as disruptions in these markets can undermine policy effectiveness, shaping the politics of CBs in line with financial interests (Ban & Gabor, 2016). In this process, CBs adopt a risk management perspective, selecting eligible collateral, applying haircuts, and deciding on asset eligibility for unconventional monetary policies (Gabor, 2016). Although legally tasked with price stability, CBs effectively function as financial policymakers, reflecting the broader influence of finance on state governance (Braun, 2020).

The execution of monetary policy—through the importance of government securities as high-quality assets for collateral—and fiscal policy—through financing via debt issuance—evidences the centrality of government securities in the interconnections between the state and private finance. The market for government securities plays a key role in state financialization since, simultaneously, they are the backbone of the entire financial system, and through the evaluation of solvency, states are disciplined. The public debt market acts as “the anchor and the basis of expansion of the contemporary capitalist financial system”, linking not only the state and domestic finance but also connecting the two with international finance (Vasudevan, 2024, p. 2). This explains why the public securities market “provides a most likely location for the operation of financial market pressures” (Mosley, 2003, p. 17).

Through the assessment of each state's insolvency risk, financial markets price government securities, potentially impacting the cost of funding for states. A higher perceived risk, unless offset by an action from the central bank, will result in a decrease in the price of government securities, thus increasing the cost of rolling over or issuing new

debt. Regardless of how assertive expectations regarding the solvency of each government may be, they are potentially powerful enough to discipline the state through impacts on the cost of debt. A rise in borrowing costs can effectively shape state actions by pressuring it to reduce the risk of insolvency, thereby disciplining it to implement the neoliberal agenda (Sotiropoulos et al., 2013). Another possibility is the default on debt, prompting states to turn to supranational institutions, such as the IMF. In such cases, institutional mechanisms attached to the rescue—the conditionalities—also effectively direct national states towards neoliberal economic policies in favour of financialization.

The discipline imposed by financial markets on the state is grounded in an ideological interpretation of reality. When a specific event is translated into higher sovereign risk—such as an increase in a government’s social expenditure—it reflects the financial market’s interpretation of reality, rooted in neoliberal ideology. Sovereign risk is not based on neutral interpretations of parameters per se, such as a country’s deficit or debt-to-GDP ratio. Sotiropoulos et al. (2013, p. 203) illustrate how, for instance, a fiscal deficit resulting from an increase in social expenditure might not be priced the same way as a similar deficit resulting from a reduction in taxation benefiting financial capitalists. Therefore, what matters most “is not fiscal prudence in general, but a particular form of fiscal prudence: a prudence appealing to the interest of capitalists” (Sotiropoulos et al., 2013), and, particularly, to the interests of finance.

If the state conducts its economic policy in a way that does not align with the neoliberal agenda, markets can raise the perceived solvency risk, which may be translated into higher financing costs, forcing governments to revert to or deepen neoliberal policies. Since government securities are at the core of both fiscal and monetary policy, they impact the entire economy. Through the assessment of government debt risk, financial markets exercise their power by pressuring governments to implement policies that align with their interests, often at the expense of the broader population, making it a priority for governments to ensure the quality of public credit is deemed adequate by investors (Streeck, 2014). Therefore, the interrelationship between the state and financialization fundamentally revolves around the issuance and management of public debt<sup>6</sup>.

---

<sup>6</sup> To address particularly how government debt management has been shaped by financialization the literature also refers to the “financialization of sovereign debt management” and “financialization of government bond market” (Fastenrath, Schwan, & Trampusch, 2017; Hardie, 2012).

The ability of financial markets to exert such discipline depends heavily on the political and economic context of each country. The capacity of the state to implement policies that diverge from the neoliberal agenda, rather than being technically determined, is fundamentally shaped by power relations. On the international stage, such capacity is also influenced by power dynamics between different nations, where finance and geopolitical power are expressed in the government securities market. While US Treasury bonds are considered a “risk-free” asset, thereby smoothing capital discipline through sovereign risk, peripheral government bonds are more heavily affected by it. The international financial and monetary system is asymmetrical, based on a hierarchy of currencies and debts, which shapes state financialization unevenly in the core and the periphery.

#### 4. Subordinated state financialisation in the periphery

Financialization is a variegated process that exhibits significant geographical particularities, with a key distinction emerging between core and peripheral countries. Drawing on the currency hierarchy literature and extending this concept to the hierarchy of government debts, this sub-section examines how state financialization is shaped by these hierarchies. The mutual relationship between the state and financial markets in the periphery is *sui generis*: on the one hand, the state supports the development and empowerment of financial markets. This support is mediated by the higher risk attributed to its currency and debt, which leads to a state-supported deepening of market liquidity to facilitate trade and protect against such risks. On the other hand, financial markets discipline the state towards the reproduction of neoliberal economic policies, which can reinforce the position of its currencies and assets at the bottom of the hierarchy of currencies and debts.

##### 4.1. The international hierarchy of currencies and government debts

International monetary asymmetries are reflected in what is denominated by the literature of Post Keynesian inspiration as currency hierarchy (Andrade & Prates, 2013; Conti, Prates, & Plihon, 2014; Palludeto & Abouchédid, 2016, Prates, 2005). The several domestic currencies have different degrees of capacity to perform the functions of money<sup>7</sup>

---

<sup>7</sup> Unit of account, means of payment and store of value.

globally, and based on it emerges a hierarchy of currencies among them (Palludeto & Abouchedid, 2016). Since the dollar is the currency that best performs globally the money functions, the US currency is at the very top of the hierarchy. Core currencies with a limited capacity of functioning as money internationally come right below the dollar - the Euro comes right after, followed by other strong but less significant currencies, such as the Yen, the Pound, and the Swiss franc - while in the very basis of the hierarchy are the peripheral currencies, with no (or marginal) ability to perform its functions at the international level.

Since peripheral currencies cannot function as money on the international stage, the demand for financial assets denominated in these currencies is dependent on expectations regarding their future conversion into world currency<sup>8</sup>. In other words, the subordinated monetary positions of such currencies allow the formulation of an additional determination of risk, specifically the risk of illiquidity on the international level. The illiquidity risk of peripheral currencies is highly sensitive to the global financial cycle, decreasing during periods of boom and increasing during financial distress.

Monetary asymmetry is closely related to the emergence of financial asymmetry. Andrade and Prates (2013) identify two key aspects of financial asymmetry: firstly, financial flows to peripheral countries are highly speculative, sensitive to risk aversion, and dependent on monetary policy in core countries. As a result, the demand for peripheral financial assets assumes a more unstable and procyclical character. Secondly, peripheral countries' financial assets constitute a small share of the global financial markets. While peripheral assets represent only a small portion of foreign investors' portfolios, even a small reallocation of their assets can have significant consequences for peripheral financial markets due to their relatively small size (Kaltenbrunner & Paineira, 2018, p. 18). In contrast, during moments of financial distress, capital flows are redirected to assets denominated in top currencies, mitigating the impact on prices in core countries' assets. These two aspects imply that a reversion in the financial cycle has a disproportionately disciplinary impact on the periphery

---

<sup>8</sup> The literature (Andrade & Prates, 2013; Conti et al., 2014; Palludeto & Abouchedid, 2016) denominates “international liquidity” the levels on which a currency is able to perform money functions internationally. In this approach, international liquidity corresponds to the structural characteristics of the currencies. Another concept is the “market liquidity”, which corresponds to conjectural expectations of the liquidity of such currency, close to what we are calling here illiquidity risk. The market liquidity of each currency varies according to the financial cycle, while international liquidity is stable regarding the financial cycle and comprises the more solid characteristics of a currency as its ability to function as world money.

(Alami, 2018). Therefore, capital flows become crucial to explaining the volatility of asset prices and the subordination of peripheral countries (Bortz & Kaltenbrunner, 2018; Bonizzi, 2013). The consequences of these financial asymmetries are reflected in higher interest rates and exchange rate volatility in peripheral countries (Conti et al., 2014).

An important element of financial asymmetry is highlighted by Alami (2018), who analyses the geographical unevenness in risk assessment. The global financial centres, primarily located in core countries, are "the leading sites of production of financial instruments and knowledge" upon which the risk assessment of assets is based (Alami, 2018). Of particular significance is the highly concentrated market of risk agencies, mainly dominated by the Big Three—Moody's, S&P, and Fitch. Based in the US and London, these agencies rank governments, corporations, and individuals worldwide according to their assessments of the risk attributed to each asset group. The role played by sovereign ratings is particularly important, as "sovereign credit ratings form a benchmark indicator for the credit risk assessment of many other assets" (Ozturk, Namli, & Erdal, 2016). As noted by Basu and Sun (2022), these institutions wield "enormous influence and power," acting as a reference for guiding the behaviour of investors and institutions globally, triggering the movement of international financial wealth based on their risk ratings. As previously mentioned, the risk assessment is embedded in a capitalist ideology that reflects class interests. Alami (2018) further evidences that the ideology embedded in risk formulation is geographically shaped, mirroring actual geopolitical power relations. The construction of the knowledge underlying risk assessment is permeated by a particular worldview based on "[w]estern- and capital-centric views of history and imperial/neo-colonial imaginaries" (Alami, 2018, p. 26), which influences the representation of peripheral assets as riskier.

The existence of monetary and financial asymmetries is also manifested in an international hierarchy of government securities. As discussed by Vasudevan (2024, p. 3), the subordinated position of the periphery is "structured by sovereign debt and the interplay of public debt and global finance." The hierarchy of government securities depends on two main factors: first, the position of the national currency within the global currency hierarchy; and second, the capacity of national institutions—particularly the relationship between the treasury and the national central bank—to back and support government debt. Since US Treasury securities are denominated in the world currency and the Federal Reserve (FED) is

capable of managing and supporting the market for government securities, they occupy the top of these hierarchies. In contrast, the government securities of peripheral countries are at the bottom of the public debt hierarchy, as they are denominated in domestic, weak currencies or foreign currencies that they do not issue. While public bonds from core countries are considered safe havens, the extra risks attributed to the repayment of debt in peripheral countries become a disciplinary and structuring mechanism for their subordination.

#### 4.2. Financialization of the State in the Periphery

In peripheral economies' state financialization, the interconnections between the state and financial markets are shaped by subordination in a dual process. On one hand, the peripheral state actively fosters the development of financial markets, seeking to mitigate the extra risks associated with its currency and sovereign debt. On the other hand, financial markets exert significant disciplinary pressures on the state, reinforcing neoliberal economic policies that may further entrench the position of its currencies and assets at the lower tiers of the international monetary and financial hierarchy.

As previously discussed, financial markets rely on the state to sustain their power and expand their influence, while the state depends on these markets to implement its economic policies. In peripheral countries, this mutual relationship is mediated by the heightened risk attributed to their currency and sovereign debt, as described earlier. This feature is evident in the specific nature of the relationship between the state and private finance in executing fiscal, monetary, and exchange rate policies. To achieve its economic policy goals, the peripheral state becomes dependent not only on financial markets but also on external factors, such as its access to international currencies and assets at the top of global hierarchies.

Similar to core countries, peripheral states increasingly depend on sovereign debt issuance to execute fiscal policy, but this process takes on distinct forms. One clear example is when peripheral states rely on external debt to finance their expenditures. This situation represents not only the state's dependence on financial markets but also its reliance on the availability of reserves to service the debt. It marks a direct form of external vulnerability, as the inability of these states to issue the currency in which they are indebted undermines their ability to respond to foreign outflows and exposes them to exchange rate devaluations. In the

event of a sudden stop in capital flows, the state may find itself unable to service its debt in foreign currency due to devaluation pressures, and the mechanisms through which the state conducts fiscal policy can be directly damaged by higher funding costs. This constitutes a direct and intense form of state discipline, mediated by financial markets and the supranational institutions that bail out states based on strict conditionalities. The debt crisis in peripheral countries during the 1980s and the subsequent adoption of the Washington Consensus epitomized the strength of this disciplinary mechanism<sup>9</sup>. It remains relevant today, as illustrated by the cases of Latin American countries such as Argentina since 2001, Venezuela in 2017, and African and Asian countries such as Ghana and Sri Lanka in 2022.

However, even when peripheral states succeed in issuing debt in their domestic currency, new forms of discipline via financial markets may emerge. If the state issues debt in its own currency, bondholders' expectations regarding exchange rate risks may also contribute indirectly to an increase in funding costs. The presence of foreign investors as holders of domestic assets, including government securities, can create an additional source of vulnerability for these states due to their strong procyclical demand (Arslanalp & Tsuda, 2014; Bortz & Kaltenbrunner, 2018). The devaluation risk decreases the value of financial assets in terms of the foreign investor's currency, which can trigger capital outflows as foreign investors bear the exchange rate risk (Hofmann et al., 2020). In this scenario, the Treasury could be indirectly affected by an increasing cost of rolling over its debt if devaluation pressures, by threatening inflation targets, lead to monetary tightening (De Paula, Fritz, and Prates, 2024), or by the potential impact on long-term government debt yields. Therefore, fiscal policy not only depends on financial markets but is also shaped by the fragility of the state's currency and debt, which constitutes an additional source of discipline for the state. Fiscal policy thus reveals a governance pattern that is mediated both by financial markets and global hierarchies, making the discipline imposed by financial markets potentially even more pronounced.

---

<sup>9</sup> In Latin America, the debt crisis in the 80s was of particular importance to turn such countries to the IFM and the World Bank, which came together with the imposition of the Washington Consensus (Lapavitsas, 2013, p. 327; Paineira, 2009, p.5). Even if Asian economies did not suffer a sudden stop, during the 80s it was also adopted a set of measures promoting financial deregulation and liberalization (Cho, 2010; Kregel, 1998), which was deepened by the Asian crisis at the end of the 90s, making countries turn to the IMF and disciplining the state towards neoliberal reforms. To the African economies, the debt crisis during the 80s also impacted the region and redirected countries to conduct the neoliberal reforms imposed by the IMF and the World Bank (Kvangraven et al., 2021).

Monetary policy also serves as a channel through which the interdependence between peripheral states and financial markets is mediated by the hierarchies of currencies and government debt. As noted by Braun et al. (2018), central banks conduct their monetary policy through financial markets, thus empowering finance as it is essential for the state to ensure the liquidity and functioning of these markets to meet monetary policy goals. In peripheral countries, monetary policy is closely intertwined with exchange rate policy. A relatively higher short-term interest rate compared to core countries is often adopted to attract foreign reserves and, in some cases, to avoid a devaluation of the domestic currency that could undermine efforts to control inflation<sup>10</sup>. Concerns about the evolution of the exchange rate redirect central banks toward operations in spot and future currency markets, which contributes to deepening these markets (Alves, 2017; Kaltenbrunner, 2010). In seeking protection against vulnerabilities stemming from the risks associated with their assets, central banks act by accumulating reserves and promoting the liquidity of spot and future currency markets.

Let us better understand the impacts of deepening foreign exchange derivatives markets and the accumulation of reserves, starting with the former. The state's shift toward financial techniques, such as financial derivatives, a hallmark of state financialization, occurs in a distinct manner here. The state promotes the depth and spread of such markets as a way to ensure liquidity for its liabilities and reduce the cost of debt. The ability to hedge foreign exchange exposure helps to boost demand for domestic assets by foreign investors (Kaltenbrunner, 2010), but it also introduces the potential for increased instability, as exchange derivatives markets can be used for speculative purposes. Farhi and Borghi (2009), for example, highlight how the foreign exchange derivatives markets contributed to heightened vulnerability by enabling substantial financial leverage during the 2008 crisis in Brazil, Mexico, and South Korea. Expectations regarding exchange rate risk also serve as a disciplinary mechanism, as their impact on inflation may push states toward austerity measures and higher interest rates. However, the central bank can offset this mechanism to some extent by holding foreign reserves to engage in swap operations.

---

<sup>10</sup> How the Central Bank conduct its operations in the foreign exchange markets will depend on its objectives and of the financial cycle. During periods of financial inflows, a tendency of domestic currency appreciation can be undesired, and the Central Banks can also act in the direction of avoiding an excessive appreciation of its domestic currency.

Regarding foreign reserve accumulation, it is a state strategy to safeguard against foreign outflows and to manage the exchange rate. At the same time, it entails costs of accumulation that can compromise fiscal policy (Akyuz, 2021; Palludeto & Abouchedid, 2016), and since these reserves are often invested in US Treasury securities, they contribute to reinforcing the dominant international role played by the dollar as an international reserve currency and US Treasuries as safe havens (Powell, 2013).

The mutual dependence between state and financial markets has, in the periphery, an additional layer of determination mediated by the international monetary and financial hierarchies, as illustrated by the conduction of monetary, fiscal and exchange rate policies. In this context, the state supports the development of financial markets through its economic policies in specific ways, deepening mechanisms of precaution and risk management to address the heightened risks associated with its assets. Simultaneously, the additional layer of risk determination also serves as an extra source of discipline, which not only strengthens the power of financial markets but also can reinforce the peripheral position of these states within the global hierarchy of currencies and debts.

## **5. Conclusion**

This paper has further developed the concept of state financialization, highlighting its manifestations in peripheral countries and underscoring its interconnections with international monetary and financial hierarchies. It has been argued that state financialization is rooted in a symbiotic relationship between the State and financial markets: while the State actively promotes the expansion and consolidation of financial markets, these markets, in turn, impose discipline on the State, steering it toward the deepening of neoliberal economic policies. In peripheral economies, this process is shaped by their subordinate position within the global hierarchy of currencies and sovereign debts.

The empowerment of financial markets by the state occurs through the latter's dependence on financial markets to achieve economic policy objectives. This article has demonstrated that governance through financial markets primarily operates via government debt, which serves as a critical link between financial and public finance in the implementation of monetary and fiscal policies. Conversely, sovereign risk pricing emerges

as a key disciplinary mechanism imposed on states, a dynamic that is influenced by each country's institutional framework—such as the relationship between the Treasury and the Central Bank—as well as its position within international financial and monetary hierarchies.

For peripheral countries, additional layers of risk—such as currency illiquidity in international markets and the solvency risk of external sovereign debt—further shape both governance through financial markets and amplify its disciplining power over peripheral states. Monetary, fiscal, and exchange rate policies become not only reliant on financial markets but also contingent on access to top-tier international currencies and assets, particularly the US dollar and US Treasury bonds.

In summary, the financialization of peripheral states reveals a dual dynamic: while financial deepening provides tools to manage these risks, it simultaneously strengthens financial markets' influence over the state and reinforces its subordination within global hierarchies. Future research should examine potential strategies that peripheral states could adopt to counteract the subordination inherent in state financialization, such as regional monetary integration and capital flow controls.

### **Competing interests**

The authors declare no competing interests.

### **References**

- Alami, I. (2018). On the terrorism of money and national policy-making in emerging capitalist economies. *Geoforum*, 96, 21-31.
- Alami, I., Alves, C., Bonizzi, B., Kaltenbrunner, A., Koddenbrock, K., Kvangraven, I., & Powell, J. (2023). International financial subordination: a critical research agenda. *Review of International Political Economy*, 30(4), 1360-1386.
- Akyüz, Y. (2021). External balance sheets of emerging economies: low-yielding assets, high-yielding liabilities. *Review of Keynesian Economics*, 9(2), 232-252.
- Alves, C. C. (2017). *Stabilisation or financialisation: Examining the dynamics of the Brazilian public debt* (Doctoral dissertation). SOAS University of London.
- Andrade, R. P., & Prates, D. M. (2013). Exchange rate dynamics in a peripheral monetary economy. *Journal of Post Keynesian Economics*, 35(3), 399-416.
- Arslanalp, M. S., & Tsuda, M. T. (2014). Tracking global demand for emerging market sovereign debt: International Monetary Fund.

- Ban, C., & Gabor, D. (2016). The political economy of shadow banking. *Review of International Political Economy*, 23(6), 901-914.
- Basu, K., & Sun, H. (2022). The power and influence of rating agencies with insights into their misuse. *Economic Modelling*, 109, 105763.
- Bonizzi, B. (2013). Financialization in developing and emerging countries: a survey. *International Journal of Political Economy*, 42(4), 83-107.
- Bortz, P. G., & Kaltenbrunner, A. (2018). The international dimension of financialization in developing and emerging economies. *Development and Change*, 49(2), 375-393.
- Braga, J. C., Oliveira, G. C. d., Wolf, P. J. W., Palludeto, A. W. A., & Deos, S. S. d. (2017). For a political economy of financialization: theory and evidence. *Economia e Sociedade*, 26, 829-856.
- Braun, B. (2020). Central banking and the infrastructural power of finance: The case of ECB support for repo and securitization markets. *Socio-Economic Review*, 18(2), 395-418.
- Braun, B., Gabor, D., & Hübner, M. (2018). Governing through financial markets: Towards a critical political economy of Capital Markets Union. *Competition & Change*, 22(2), 101-116.
- Bryan, D., Martin, R., & Rafferty, M. (2009). Financialization and Marx: Giving labor and capital a financial makeover. *Review of Radical Political Economics*, 41(4), 458-472.
- Carcanholo, R. A., & Nakatani, P. (2019). Parasitic speculative capital: a theoretical precision on financial capital, characteristic of globalization. *Financial speculation and fictitious profits: A Marxist analysis*, 117-137.
- Conti, B. M. D., Prates, D. M., & Plihon, D. (2014). A hierarquia monetária e suas implicações para as taxas de câmbio e de juros e a política econômica dos países periféricos. *Economia e Sociedade*, 23, 341-372.
- De Paula, L. F., Fritz, B., & Prates, D. (2024). The metamorphosis of external vulnerability from 'original sin' to 'original sin redux': currency hierarchy and financial globalization in emerging economies. *Review of International Political Economy*, 1-28.
- Duménil, G., & Lévy, D. (2001). Costs and benefits of neoliberalism. A class analysis. *Review of International Political Economy*, 8(4), 578-607.
- Farhi, M., & Borghi, R. A. Z. (2009). Operações com derivativos financeiros das corporações de economias emergentes. *Estudos Avançados*, 23, 169-188.
- Fastenrath, F., Schwan, M., & Trampusch, C. (2017). Where states and markets meet: the financialisation of sovereign debt management. *New political economy*, 22(3), 273-293.
- Fine, B., & Saad-Filho, A. (2017). Thirteen things you need to know about neoliberalism. *Critical sociology*, 43(4-5), 685-706.
- Fine, B. (2009). Neoliberalism as financialisation. In *Economic transitions to neoliberalism in middle-income countries* (pp. 27-39): Routledge.
- Fine, B. (2013). Financialization from a Marxist perspective. *International Journal of Political Economy*, 42(4), 47-66.
- Foster, J. B., & Magdoff, F. (2009). *The great financial crisis: Causes and consequences*: NYU Press.
- Gabor, D. (2016). The (impossible) repo trinity: the political economy of repo markets. *Review of International Political Economy*, 23(6), 967-1000.

- Gabor, D., & Ban, C. (2016). Banking on bonds: The new links between states and markets. *JCMS: Journal of common market studies*, 54(3), 617-635.
- Hofmann, B., Patel, N., & Wu, S. P. Y. (2022). *Original sin redux: a model-based evaluation*. Bank for International Settlements, Monetary and Economic Department.
- Hardie, I. (2012). *Financialization and government borrowing capacity in emerging markets*: Springer.
- Hudson, M. (2021). Finance capitalism versus industrial capitalism: The rentier resurgence and takeover. *Review of Radical Political Economics*, 53(4), 557-573.
- Ivanova, M. N. (2013). The dollar as world money. *Science & Society*, 77(1), 44-71.
- Kaltenbrunner, A. (2010). International financialization and depreciation: the Brazilian real in the international financial crisis. *Competition & Change*, 14(3-4), 296-323.
- Kaltenbrunner, A., & Paineira, J. P. (2018). Subordinated financial integration and financialisation in emerging capitalist economies: the Brazilian experience. *New political economy*, 23(3), 290-313.
- Karwowski, E. (2019). How financialization undermines democracy. *Development and Change*.
- Langley, P. (2004). In the eye of the 'perfect storm': the final salary pensions crisis and financialisation of Anglo-American capitalism. *New political economy*, 9(4), 539-558.
- Lapavistas, C. (2014). *Profiting without producing: How finance exploits us all*: Verso Books.
- Magdoff, H., & Sweezy, P. M. (1987). *Stagnation and the financial explosion*: NYU Press.
- Marx, K. (1992). *Capital: volume III (Vol. 3)*: Penguin UK.
- Mosley, L. (2003). *Global capital and national governments*: Cambridge University Press.
- Ozturk, H., Namli, E., & Erdal, H. I. (2016). Modelling sovereign credit ratings: The accuracy of models in a heterogeneous sample. *Economic Modelling*, 54, 469-478.
- Palludeto, A. W. A., & Abouchedid, S. C. (2016). The currency hierarchy in center-periphery relationships. In *Analytical gains of geopolitical economy (Vol. 30, pp. 53-90)*: Emerald Group Publishing Limited.
- Palludeto, A. W. A., & Rossi, P. (2022). Marx's fictitious capital: a misrepresented category revisited. *Cambridge Journal of Economics*, 46(3), 545-560.
- Prado, E. F. (2014). Exame crítico da teoria da financeirização. *Crítica marxista*, 39, 13-34.
- Prates, D. M. (2005). As assimetrias do sistema monet.rio e financeiro internacional. *Revista de economia contemporânea*, 9, 263-288.
- Powell, J. 2013. *Subordinate Financialisation: A Study of Mexico and Its Non-financial Corporations*. PhD Dissertation. SOAS, University of London
- Saad-Filho, A. (2021). Neoliberalism, Financialisation and Their Consequences. *The Age of Crisis: Neoliberalism, the Collapse of Democracy, and the Pandemic*, 3-16.
- Santos, A. C. (2023). Conceptualising state financialisation: from the core to the periphery. *New Political Economy*, 28(1), 142-154.
- Schwan, M., Trampusch, C., & Fastenrath, F. (2021). Financialization of, not by the state. Exploring changes in the management of public debt and assets across Europe. *Review of International Political Economy*, 28(4), 820-842.
- Sotiropoulos, D., Milios, J., & Lapatsioras, S. (2013). *A political economy of contemporary capitalism and its crisis: Demystifying finance*: Routledge.

- Streeck, W. (2014). *Buying time: The delayed crisis of democratic capitalism*: Verso Books.
- Trampusch, C. (2019). The financialization of the state: Government debt management reforms in New Zealand and Ireland. *Competition & Change*, 23(1), 3-22.
- Tridico, P., & Pariboni, R. (2018). Inequality, financialization, and economic decline. *Journal of Post Keynesian Economics*, 41(2), 236-259.
- Vasudevan, R. (2009). Dollar hegemony, financialization, and the credit crisis. *Review of Radical Political Economics*, 41(3), 291-304.
- Vasudevan, R. (2024). The Nexus of Public Debt and Private Finance: Forging the International Monetary Order. *Review of Political Economy*, 1-20.

## Este preprint foi submetido sob as seguintes condições:

- Os autores declaram que estão cientes que são os únicos responsáveis pelo conteúdo do preprint e que o depósito no SciELO Preprints não significa nenhum compromisso de parte do SciELO, exceto sua preservação e disseminação.
- Os autores declaram que os necessários Termos de Consentimento Livre e Esclarecido de participantes ou pacientes na pesquisa foram obtidos e estão descritos no manuscrito, quando aplicável.
- Os autores declaram que a elaboração do manuscrito seguiu as normas éticas de comunicação científica.
- Os autores declaram que os dados, aplicativos e outros conteúdos subjacentes ao manuscrito estão referenciados.
- O manuscrito depositado está no formato PDF.
- Os autores declaram que a pesquisa que deu origem ao manuscrito seguiu as boas práticas éticas e que as necessárias aprovações de comitês de ética de pesquisa, quando aplicável, estão descritas no manuscrito.
- Os autores declaram que uma vez que um manuscrito é postado no servidor SciELO Preprints, o mesmo só poderá ser retirado mediante pedido à Secretaria Editorial do SciELO Preprints, que afixará um aviso de retratação no seu lugar.
- Os autores concordam que o manuscrito aprovado será disponibilizado sob licença [Creative Commons CC-BY](#).
- O autor submissor declara que as contribuições de todos os autores e declaração de conflito de interesses estão incluídas de maneira explícita e em seções específicas do manuscrito.
- Os autores declaram que o manuscrito não foi depositado e/ou disponibilizado previamente em outro servidor de preprints ou publicado em um periódico.
- Caso o manuscrito esteja em processo de avaliação ou sendo preparado para publicação mas ainda não publicado por um periódico, os autores declaram que receberam autorização do periódico para realizar este depósito.
- O autor submissor declara que todos os autores do manuscrito concordam com a submissão ao SciELO Preprints.