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Dromocratic Arbitrage and Financial Bailouts

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"if you're playing anyway so you might as well play to win but I mean even when you win you have to keep playing!"

— (Gaddis 2012: 647)

This paper [1] examines the function of financial instability for what I call financial dromocracy: the global dominance of financial arbitrage as the contemporary form of capital accumulation, sustained in a space in which all political, economic, social, and cultural barriers are constituted as so many arbitrage opportunities. I maintain that financial dromocracy requires a certain, constant amount of turbulence to function, thereby imposing its instability on real economies and policy-makers alike in a form of governance which is ultimately parasitical. I reject the "common postulate of international relations that transnational markets are brittle structures unless backed by a powerful state or supported by a group of states acting in concert." (Cerny 1994: 224) Even the United States, the hegemon of hegemonic stability theory, is embedded into and shaped by financial dromocracy (Eichengreen 1996). I show this particularly for the 2008 Troubled Asset Relief Program (TARP), the biggest of the U.S. Treasury's bailouts of the American financial system after the collapse of Lehman Brothers. Far from showing the strength of the U.S. Treasury as financial stabilizer of last resort, TARP showed that this strength is inscribed into financial dromocratic rule.

My argument proceeds in three steps. In the first section, I use Paul Virilio's concept of dromology to describe the speed-space of financial dromocracy. I argue that this dromocracy's **modus operandi** is arbitrage, i.e., the quasi-instantaneous exploitation of differentials of price, location, risk, or other asset characteristics, for a profit. Since arbitrage is only quasi-instantaneous – subject to the transmission speed of electric impulses – financial dromocratic speed-space is at least bifurcated: a real material space of electric transmission, and the space of becoming-arbitrage, where all material (social, legal, political) barriers are constituted as so many opportunities for profit. Examining two empirical examples – the events of May 2010 between riots on Greece's Syntagma Square and turbulences within Wall Street's high-speed trading systems as well as the events unfolding June through August 2015 between Chinese stock market corrections and U.S. Treasury Securities – the section argues that a third layer of financial dromocratic speed-space must be considered, a layer of ripple effects in which each differential arbitrated serially influences all other differentials across globally integrated trading platforms.

It follows from this description that the core necessity of financial dromocracy is a permanent level of financial instability allowing differential changes to ripple outward. In the second section of this paper, I examine the state's function in the trifurcated speed-space of financial dromocracy. I maintain that states are constituted within financial dromocracy as asset producers – sovereign bonds and securities who can fulfill functions as Tier 1 capital on financial portfolios – as well as sources for bailout funds. In both ways, states provide liquidity to financial dromocracy, thus stabilizing it. Yyet, they do so according to the dromocracy's rather than their own, ostensibly sovereign, rules and requirements. For asset production, states must prove their full faith and credit to borrow at market interest rates. For bailouts, states must provide outright liquidity, but not in such a way that arbitrage opportunities get too depressed – spreads must be closed and 'markets calmed,' but not so far that instability disappears.

Section three combines the findings of the previous two. If section one has shown that "crisis" is normality in

financial dromocracy, upholding profitable arbitrage opportunities, and section two has argued that state speech – sovereign debt issuance and outright bailouts – conforms as much to the speed-space of financial dromocracy as the global real economies, then the function of bailouts must be reassessed. The state has to provide emergency liquidity, restoring intra-market lending and "calming markets." Yet, if only a turbulent market is a profitable market, restoring "calm" must restore a certain instability, otherwise, it would be senseless or counter effective. The purpose of bailouts in financial dromocracy, then, is not only the restoration of market liquidity as such, but its provision while maintaining profitable arbitrage opportunities. A certain amount of turbulent instability is necessary for financial dromocracy, I conclude in the fourth section; a dromological vindication of Minsky's (2008) work.

1. Financial Dromocracy

What I call "financial dromocracy" in this paper is a designator for the economic, social, and political effects resulting from the quantitative and qualitative dominance of what Philip Cerny calls the "infrastructure of the infrastructure": "growing pressures from more complex and volatile international capital flows and the increasing impossibility of insulating national economies at both macroeconomic and microeconomic levels." (1994: 223). Financial dromocracy occurs in a trifurcated speed-space: as material electronic impulses traversing a fiber optic, microwave, and satellite circuitry; as arbitrage opportunities, i.e., as differentials perceived and seized by certain economic actors; and as what I call "ripple effects" where arbitrage in one such economic differential instantaneously changes others, removing and providing arbitrage opportunities.

Financial intermediation is a form of exercizing power, a dromocracy: it controls "the distribution of time" (Virilio cited in Breuer 2009: 233). Being faster than others is a very classical tool of social rule: "In most known societies, the position of the ruling classes was based not least on the fact that, compared with the ruled, they had greater speed at their disposal." (Breuer 2009: 222) Embodying this dromocratic advantage in a society whose "finality is the finality of the economic genre" and where "success is gaining time" (Lyotard 1988: xv), financial dromocracy has become dominant to the point where "economic production and exchange are shaped first and foremost by financial and monetary imperatives." (Cerny 1994: 226) By the same token, financial dromocracy introduces a specific form of space into material capitalist production. This space is governed by the dominance of "new communications technologies, from the telegraph to satellites, [which] produced a comprehensive network in which all the surfaces of the globe are directly present to one another." Not the revolutionalization of production, but that of circulation was thus the decisive advance that began the "deterritorialization" basic to modernity, providing the conditions for a new "technological space" that is not geographical, but rather a "speed-space." (Breuer 2009: 223) This speed-space is trifurcated. Two of its dimensions are well-known and theorized: the infrastructural dimension and the arbitrage dimension. My emphasis here is on a third, which I call ripple effects; likewise, well-known to financial practitioners, but undertheorized as to its spatio-temporal-dromological structure.

Financial intermediation consists of messages traversing financial circuits and subject to portfolio allocation decisions: buy and sell orders, profits and fundamentals, price differentials, risk coefficients and value-at-risk, IPOs and quarterly earnings reports. Each of these traverses space in two simultaneous ways: as electronic impulses in their circuits, and as becoming-arbitrage. In all cases, speed is at the heart of the financial economy's conduct because its main activity is arbitrage, i.e., the profitable exploitation – and hence removal – of price and other differences before any competitor notices them (Shleifer and Vishny 1997). With respect to the former, transmission velocity is subject to technological, geographical, and infrastructural boundary conditions. "Location matters" since the exploitation of arbitrage relies on the discovery of price differentials at higher speed and lower cost than competitors, an arms race has developed over the technological means to transmit and retain messages whose content are infinitesimally small arbitrage opportunities (Hau 2001). For example, Bloomberg's Terminal service allows access at lower latency rates than its competitors, thus speeding up the receipt of market data by those subscribing to it and allowing profits based on this competitive edge (Edgecliffe-Johnson 2012). Likewise, ultra-low latency connections are built at great expense between trading platforms to shorten transmission times (Troianovski 2012).

Nevertheless, electric impulses are fundamentally equal on this technical level, moving at the speed of light, which means that the profits of arbitrage lie not in the impulses themselves but in their exploitation as differentials: speed "is not a phenomenon but a relationship between phenomena: in other words, relativity itself." (Virilio 2008: 12) The speed of arbitrage is independent of what Virilio calls the "true velocity" of material transmission of electrical

impulses (though locational differences do engender or hinder profits); it is a question of the "virtual velocity" of the content of these electrical impulses – the becoming-arbitrage of the differential they indicate (ibid). This becoming-phenomenal, however, it not necessarily its becoming-sensible to human beings. An arbitrage opportunity is a phenomenon in Virilio's sense, a difference in two related data points. Finding and exploiting it thus a question of pattern recognition, not human recognition (Kittler 1993: 58-80). It is the recognition and removal of an arbitrage opportunity by computerized algorithmic transaction before a competing algorithm notices it (Xiong 2001).

Arbitrage opportunities are differentials between two data points: two prices and their difference; two trading platforms and their transmission speed differential; two market segments and their liquidity difference; two sets of legal environments and their constraint difference; and so forth (Shleifer and Vishny: 35-37). The realization of an arbitrage opportunity is identical to its algorithmic removal in a light-speed transaction. Thus, any given arbitrage opportunity is constituted out of a mass of other differentials which, in turn, are potential arbitrage opportunities. Once the profit in any specific arbitrage opportunity is realized and the opportunity removed for competitors, a multitude of other differentials are set in motion – a change in one of them is a change in all of them (Virilio 2008: 23). If the price of aluminum falls due to arbitrage – whether real economic arbitrage, where large amounts of aluminum are transported across U.S. state lines, or financial arbitrage through insurance instruments – the aluminum-to-wheat ratio changes, which has effects on the price of oil and other commodities, and so forth for currencies, stocks, sovereign bonds, and other financial instruments (Kocieniewski 2013).

This introduces the third layer of financial dromocracy in a Virilian speed-space: a rippling-outward of differentials through integrated global financial markets because one arbitrage opportunity realized instantaneously changes an endless chain of differentials, in turn representing so many opportunities to arbitrage. This occurs instantaneously: a change in one differential is automatically a change in all other differentials. Yet, this instantaneity is a phenomenal instantaneity, i.e., it is in turn internally bifurcated. The rippling-outward of differentials is partly a matter of electronic transmission whose real velocity is light speed. Partly, however, it is the becoming-arbitrage of these ripple effects to the algorithms reacting to them. News of the arbitrage opportunity is identical to the arbitrage opportunity itself – as a price differential changes, the computer system recognizes this change in the instant it occurs. If the information were to reach the computer system any later, this difference would in turn be subject to arbitrage – in this case, hardware adjustments towards greater speed of transmission and/or pattern recognition; terminals and microwave connections.

Thus, each localized occurrence instantaneously becomes a generalized occurrence: financial dromocracy depends on constant, endless, systemic instability (Minsky 2008: 219-245). What is often called "crisis," or even "irrationality," is thus not at all out of the ordinary: on the contrary, it is the structure of dromocratic normality (Shiller 2005; Roitman 2014). "[U]ntil now, with the supremacy of local space-time, each of us was still exposed only to a specific accident, one precisely located; with the emergence of world time, however, we will all be exposed (or, more precisely, overexposed) to the general accident." (Virilio 2008: 69) Each local event instantaneously ripples outward to every other financial phenomenon, "the delocalization of action and reaction (interaction) necessarily implying the delocalization of all accidents." (ibid) All regional events are arbitrage opportunities engendering endless further series of events rippling outward. As each is hedged against and speculated upon, all join the generalized accident where speed-space is instantaneous.

Global real economies are shaped decisively by the dominance of this financial dromocracy (Cerny 1994: 226). They, too, increasingly resemble ripple effects. Two empirical examples illuminate this in particular: the May 2010 market turmoil between Greek riots and the so-called "Flash Crash," and the 2015 market corrections in China. In both cases, liquidity gyrations spread through the "infrastructure of the infrastructure," across borders and market segments, trading platforms and asset classes. To financial dromocracy, all of these boundaries are so many arbitrage opportunities, and in both cases, the "general accident" (Virilio 2008: 69) is also a generalized arbitrage opportunity (Minsky 2008)

Events in May 2010 mark a localized accident rippling outward to become a general once. It exemplifies how the trifurcated structure of financial dromocracy reconstitutes even the most capillary ends of the contemporary political economy. The day's epicenter wason the streets of Athens, Greece. On May 5, 2010, a demonstration of 200,000 people had assembled on Syntagma Square, where the Greek Parliament is situated. The protests, initially peaceful, consisted of a rather varied crowd: right-wing and moderate unions shouting populist and nationalist slogans (TPTG 2011: 261), groups of protesters not affiliated with any group – mainly protesting social security cuts proposed in the recently introduced austerity budget –, and presumably groups affiliated with SYNaspismos (the precursor to current main opposition party SYRIZA – the "Coalition of the Radical Left"), KKE (the Communist Party), and an

anarchist contingent. Property destruction began relatively soon (ibid). Moreover, some protesters attacked a Marfin Bank branch with Molotov cocktails. In the subsequent fire, despite attempts to save them, employees Paraskeui Zoulia, Aggeliki Papathanaspopolou and Epameinondas Tsakalis died (Occupied London 2010b).

While one of the immediate questions was why employees were in the bank branch at all when downtown Athens was otherwise empty (Occupied London 2010a) – three members of the Marfin executive board have since been convicted of manslaughter (ekathimerini.com 2013) – the event naturally had a number of other ramifications, particularly on the communities attempting to resist austerity. Seen from that perspective, May 5 not only marked the reactionary counter-movement: in times of "crisis," it was not only possible for Greek media to separate "anarchist violence" from genuine protests, but also for Greek politics to discredit the entire protest as a disruption in a time when "national unity" was needed (Lynteris 2011: 210, Kaplanis 2011: 217). Some of these gestures were also reinforced within the anarchist movement itself, in which a series of quasi-purges occurred after May 5, attempting to separate genuine social movements from neoliberal subjects whose only concern was, as was suggested, "anarchy" as a brand of fashion or a form of dogma (Flesh Machine 2010).

Yet, dead bank clerks by themselves or Greece alone have never been relevant to global capital flows. Messages spread and profliferated; arbitrage opportunities emerged. Between May 3 and 7, 2010, catalyzed by the protests, Greece's sovereign bond risk premia relative to Germany rose from 545 basis points on May 3 to 968 on May 7. Simultaneously, rapid increases in European peripheral yield spreads over German sovereign bonds occurred for Portugal, Spain, Ireland and Italy. The simultaneity of the yield spread movements suggests that this is not due to the countries' fundamentals (Lo Conte 2009: 344; Claessens et al. 2010: 269; Blyth 2015: 62-73). For example, country fundamentals do not seem to be sufficient to explain Italy's distress – despite its dual economy and high debt levels, the country had never been in danger of becoming insolvent (Belke 2011: 685; Pusch 2012: 3; European Commission 2012b).

Rather, the mechanism by which arbitrage opportunities proliferated – the transmission from localized to generalized accident – was 'sovereign debt of European peripheral countries' as a contagious asset category. On May 6, 2010, Moody's (2010b) issued a report indicating that the Greek "sovereign weakness," through banking connections, could spread not only to Portugal, Spain, Italy and Ireland, but also to the United Kingdom. The report itself is certainly very cautious – emphasizing several times that each of "these countries' banking systems faces different challenges of different magnitudes," that the Italian banking system in particular had been "relatively robust so far," and that the questions addressed in the report depend on a variety of factors, particularly European bailout funds (Moody's 2010b). Nevertheless, there appears to have been a contagious dynamic which went beyond individual countries to a class of countries (the "PIIGS" countries) – and even beyond this class: for example, to Great Britain (Blyth 2015: 71-73).

Perception of the UK financial system's integrity immediately became compromised. Already on May 1, 2010, some had warned that while Britain's fiscal situation was not comparable to Greece's (particularly because of its independence from the euro zone), it was nevertheless subject to a variety of pressures: particularly because of public sector borrowing in response to its financial sector's 2008 distress, as well as "[t]he market's assessment of the impact of a hung parliament" (Allen 2010). With Greece and Portugal in the line of fire on May 6, 2010, "UK banks were London's biggest fallers yesterday [May 5, S.E.] on the FTSE 100 share index" (Pilditch 2010). Stuck between American and European markets and hence the ramifications of the 2007/2008 crisis (Coates and Dickstein 2011: 60), and engaged in austerity (Mullard 2011: 188), the UK's inclusion in the dynamics of May 5 and 6, 2010, promised disastrous effects on already fickle markets since the British banking sector was extraordinarily large relative to GDP and held significant amounts of UK sovereign debt (Treanor 2010).

Announcements like Moody's warning about effects of downgraded Portuguese sovereign debt on Portuguese bank balance sheets on May 5, 2010 suggest another avenue by which Greece's news rippled outward: the European banking sector and its significant cross-border exposure to Eurozone sovereigns' debt (Lucarelli 2011: 208) as well as interbank interconnections (Schüler 2002). "Moody's Investors Service has today placed under review for possible downgrade the senior and junior debt ratings of all ten rated Portuguese banks. The rating action has been triggered by the review for possible downgrade of the Aa2 ratings of the Portuguese government." (Moody's 2010a). On the other hand, an even more important indication is that on May 6, 2010, the European Central Bank board of directors, in its monthly meeting, decided that the ECB would set up a mechanism to purchase European sovereign bonds directly in the secondary market – a major reversal of policy (Bastasin 2012: 202). The mechanism formally announced on May 9 and taking effect on May 14, 2010 was the Securities Market Programme (SMP), which remained in effect until it was replaced by Outright Monetary Transactions (OMT) in September 2012 (ECB 2010b: 2; Ewing

and Erlanger 2012). The SMP succeeded in its main task, market making on the secondary bond market (Lucarelli 2011: 210, Giannone et al. 2012: F479; Eser and Schwaab 2013: 3).

Yet, the Securities Market Programme decision shows that the European events of May 2010 were embedded into – and themselves engendered – global ripple effects due to financial dromocratic interconnections. That Great Britain came to be implicated in the events of May 2010 could, perhaps, still have been explained by geographical proximity and institutional ties: after all, while the UK may not be a member of the euro zone, but it is (as of writing this) a member of the European Union and European Economic Area. Yet, the Eurozone had long been embedded into developments seemingly entirely unrelated, yet connected by the global field of differential ripple effects. Greek sovereign debt ratings had become questionable when a debt restructuring occurred in November 2009 in Dubai (TPTG 2011: 256; Lane 2012: 56, Fn. 2). Likewise, the ECB board of director's decision to attempt to flatten Eurozone yield spreads was not so much a reaction to Greek fiscal difficulties and more to the so-called "Flash Crash" on May 6, 2010 (Bastasin 2012: 201). Already on May 5, 2010, global stock markets had fallen considerably in reaction to Moody's warning regarding Portuguese contagion – and despite good news about US labor market fundamentals, which is another indication that financial dromocracy cares little about real economic fundamentals (Pepitone 2010). On May 6 itself, "[i]n one of the most gut-wrenching hours in Wall Street history" (Twin 2010a), a computer error led to a selling cascade which became "the biggest one-day point decline on an intraday basis in Dow Jones history." This, in turn, sent new and additional shock waves through global markets, with gold and US treasury bills (both safe-haven investments and thus indicators for market distress) spiking at record levels and markets in Europe, America, and Asia "extremely volatile" and reaching new lows across boards despite good news from Asia as well (Twin 2010b).

U.S. stock markets as well as futures markets reacted negatively to these new developments in Europe (Moon 2010a, Moon 2010b, Krudy 2010). Even seemingly unconnected events, such as a Brazilian bond issuance scheduled for early May 2010, a globally dispersed series of initial public offerings, as well as East Asian currency exchange rates, were affected by what observers called a "global anxiety" in early May 2010 (Schwartz and Dash 2010). Even the first traces of the US debt crises of 2011 and 2013 can be found in the events of May 2010, as Greek debt contagion engendered early seeds of anxiety regarding US federal government deficits – despite the continued safe-haven status of US T-bills (ibid). Yet, this 'global anxiety' also presents a global field of arbitrage opportunities. Investors oriented towards 'safety' chased German Bundesanleihen, U.S. Treasury Securities, and gold. More adventurous portfolios contained East Asian currencies, making use of the profit margins offered by their volatility. To be sure, this was bad time for real economic IPOs and Brazilian bond issuance, but financial dromocracy had few problems profitably reallocating their portfolios.

Though taking place on a far less global scale, the June-August 2015 Chinese market correction nevertheless shows that instantaneous ripple effects structure financial dromocracy. In June 2015, a Chinese stock market bubble burst which had long been fueled by excess leverage in an overoptimistic investment climate (Gough 2015). In July and August 2015, respectively, stock markets fell again, these times more significantly (Denyer 2015). As in the May 2010 ripple effects, ramifications of these initial events crossed the boundaries of their respective trading platforms and country borders. As investors attempted to remove Chinese stocks from their portfolios, flights-to-safety occurred, raising prices of U.S. Treasury Bills as well as the value of the Dollar. Between June and August 2015, the return associated with U.S. two-year, five-year and ten-year Treasury notes decreased by a third, a fifth, and a fifth, respectively, as demand for them increased (U.S. Treasury 2015a).

Here again, technicalities have political effects, as U.S. exports thereby become more expensive, potentially decreasing their volume and threatening domestic employment – while simultaneously increasing American purchasing power for goods produced in China and elsewhere (Roach 2012). This, in turn, may depress U.S. stocks (Lim 2015) and did indeed depress sales of firms globally operating and importing into China – particularly for luxury goods (Serafino 2015). Once again, the ripple effects present a maze of arbitrage opportunities arising instantaneously as depressed U.S. stocks lead to higher-valued commodities, for example (Lord 1991). Likewise, each arbitrage realized changes a differential – price, legal, geographical – thus changing all differentials: depressed Chinese stock values decrease U.S. stock values both directly and indirectly, via flights-to-safety to U.S. Treasury Securities (Xindan and Zhang 2013). In turn, each of these remote effects is instantaneous as its virtual velocity is identical to its real velocity: becoming-phenomenon is becoming-arbitrage, which is removing-arbitrage.

Each tiniest accident's effects ripple across the globe since they change price differentials across the entirety of the financial dromocratic field: "immediacy of information immediately creates the crisis" (Virilio 2009: 208). Yet, since financial dromocracy is nothing but the becoming-arbitrage and hence the disappearance of individual price

differentials, these accidents are normal arbitrage opportunities (Kregel 1998; Rodrik 2011: 89-111). What is a field of cacophonic chaos for real economies and policy makers is a field of generalized profit to financial dromocrats. As algorithmic trade carries the day, human sense-making is irrelevant and "the frailty of reasoning power," as Virilio would have it, does not prevent profit (2009: 208).

2. Financial Dromocracy and Bailout Sovereignty

Yet, both examples also illustrate that financial profits can only be realized under volatile conditions if sufficient liquidity is present. Financial dromocracy is not invincible. It requires a twofold state intervention. States provide sovereign bonds as portfolio-stabilizing assets, i.e., partly as liquidity provision, partly as raw data based on which market actors can engage in arbitrage (Lou et al. 2013). Secondly, states provide outright bailouts – liquidity injections whose ripple effects in turn obey dromocratic structure. In this section, I discuss them in turn. In both cases the generalized accident, though no "crisis" in the sense that the financial system was actually endangered by any of its myriad arbitrage fluctuations, does delineate the stakes of financial dromocracy and hence the precise form that such outside interventions must take.

As human sense-making is incapable of keeping up with algorithmic arbitrage, "a new and final form of cybernetics, at once social and political, has emerged in the history of society. Our democracies have every reason to fear it." (Virilio 2008: 84) This form of cybernetics is insufficiently explained by depictions of market "herd behavior" (Lux 1995) mired in "panic" (De Grauwe and Ji 2013). Nor is it merely a form of technocratic expert rule, "the growing power of experts who silence every thought that does not originate from instrumental-technical thought" (Stehr and Grundmann 2011: 86), although the power of rating agencies has been criticized in this vein (Bartels and Weder di Mauro 2013; Fuchs and Gehring 2014). Rather, financial dromocratic cybernetics occur in the trifurcated speed-space described above, the fundamental structure of which is the rippling-outward of differentials presenting endless series of arbitrage opportunities.

Individual assets are as much inscribed into ripple dynamics as market actors at large. Moreover, real economic actors providing assets come to be inscribed into them as well. The most important of these is the state, the conditions of whose sovereign debt issuance present an exemplary case of financial dromocratic cybernetics whose effects are ill-explained when "decision makers" and other anthropomorphizations are invoked. In the Eurozone as in the case of the United States, the United Kingdom, and increasingly China, the state fulfills a role as an insurance provider of tier 1-eligible assets (Lo Conte 2009). More than just setting funding flows in motion to or away from sovereigns, cybernetic automatisms based on financial dromocratic ripple effects constitute and reconstitute, establish and reestablish the state as a market producer of assets inscribed into arbitrage ripple effects and their algorithmic arbitrageur circuitries.

The system of dromocratic arbitrage into which the state is embedded when producing sovereign bonds and being rated according to its ability to do so is qualitatively different from the state's own administrative language establishing territorial sovereignty and administering laws. At stake in the state's market incarnation is the its ability to credibly produce assets of a quality superior to other assets, thus opening at once a liquidity provision and an arbitrage opportunity for market actors (Eaton 1993). I discuss the liquidity provision aspect first. When producing sovereign bonds, the state acts as a producer of assets endowed with specific regulatory privileges. Sovereign bonds issued by the U.S., Canada, all Eurozone member states, the U.K., and a handful of other states are eligible to be weighted as tier 1 capital on bank balance sheets for the purposes of leveraging and banking sector stress tests (EBA 2011). [2] That is, a bank holding sovereign bonds worth €100 may lend by a factor multiplied by its leverage ratio (say, 5) to engage in any financial transaction (say, €500) (Epstein and Habbard 2013). Likewise, U.S. financial actors hold U.S. Treasury Bills as well as German and other Eurozone sovereign bonds as tier 1 capital (Noeth and Sengupta 2010). Since leveraged transaction are one of the primary sources of global financial instability – after all, a leveraged transaction involves a multitude of lenders who are indebted to one another, leading to cascading lending withdrawals if doubt arises about the quality of just one of them, which occurred in 2007 – the status of sovereign bonds as portfolio stabilizers is crucial (Minsky 2008: 38-41). If the value of sovereign bonds remains stable, banks enjoy the ability to engage in leveraged transactions subject to leverage ratio requirements, ensuring the liquidity of the financial system. In this way, states can be said to provide liquidity.

Equally important, however, are the arbitrage opportunities provided by sovereign bond issuance. German, U.S.,

and U.K. bonds present opportunities to "park" money otherwise threatened by financial instability (Roley 1980; Longstaff 2004; Pusch 2012). For other countries, particularly in the Eurozone periphery, arbitrage can become significantly more problematic. Here, too, cybernetic ripple effects of financial dromocracy are at work. If Greece's bonds decline in value, for example – yet remain eligible to be tier 1 capital under the European Capital Requirements Directive – this decreases the volume of the portfolio containing its sovereign bonds not just by the value reduction of sovereign bonds, but by this reduction multiplied with their leverage ratio. For every $1 fall of the value of the sovereign bonds in the above example, the size of a firm's portfolio contain it would decline by $5. For this reason, it is individually rational for banks to sell sovereign bonds in the secondary market (and demand higher interest rates in the primary market) as soon as 'doubts' arise – i.e., as soon as the Greece-Germany differential becomes phenomenal as a dromocratic arbitrage opportunity.

Each country's asset production is inscribed into regulatory cybernetics; in Europe, via government bond holding by the integrated European banking circuitry (Lucarelli 2011); in the U.S. as global safe haven asset (Longstaff 2004). In this way, countries become investments as differentiated arbitrage opportunities by phenomena complementary to the contagion discussed above, so-called "flights-to-safety" (Pusch 2012: 2-6). Both peripheral and core countries come to be inscribed into self-reinforcing movements between asset classes. For countries – just like firms – these present themselves as interest rate hike spirals where investors choose the sovereign bonds of so-called "safe havens," countries with undisputed good records as targets for their investments. Yet, these records are not achieved by countries themselves, but are rather effects of market self-referentiality allowing the countries in question to maintain their own good records independent of their own domestic policies: investors moving funds to "safe havens" decrease the interest rates of these countries' sovereign finance, thereby improving their fiscal position independent of its fundamentals (Engel 2015). This way, the U.S. was able to weather its own debt ceiling crisis without losing access to market funding – the downgrade by Standard & Poor's in 2011 was proved unimportant in light of the absence of a similar downgrade by the other ratings agencies (Sullivan 2011). Likewise, Germany has at times paid negative interest rates on short-term bonds (i.e., investors paid Germany to invest into its bonds), thereby gaining upwards of €100 billion in unpaid interest relative to a non-crisis scenario since 2009 (Dany et al. 2015).

The example of May 2010 discussed above, however, illustrates that many countries experience the opposite effects. Arbitrage to safe havens is arbitrage away from non-safe havens – whether from countries whose bonds are not eligible as tier 1 capital to countries whose bonds are, or from peripheral countries within this class to core countries within this class. On May 6, 2010, Moody's released a statement (amended on May 21) in which it stated that it "reviews all rated Portuguese banks for possible downgrade." (Moody's 2010b) This downgrade, in turn, was a ripple effect triggered by "the review for possible downgrade of the Aa2 ratings of the Portuguese government" (ibid) following the deterioration of Portuguese lending conditions, a ripple effect of Greece's predicament. Simultaneously, however, Moody's also stated that the banks in question had been placed on review because of "the impact of the challenging economic and financial market conditions on the banks' standalone credit profile." (ibid) On the surface, these statements mean that Portuguese banks' portfolios are coming under scrutiny; seemingly a constative statement. Firstly, their scrutiny is due to their holdings of Portuguese government bonds whose value was likely to deteriorate given flights-from-contagion and which could therefore possibly no longer fulfill their role as debt securities (Lo Conte 2009: 347). Secondly, it was due to the Portuguese government's difficulties rolling over its debt after being downgraded which, to Moody's, posed the question "to what extent a potentially lower-rated government will be able and willing to support its banking system." (Moody's 2010b) Yet, despite its constative appearance, Moody's statement marked a performative escalation from the so-called sovereign bond crisis to an interbank market crisis: with this statement, the gates were opened for sovereign bond contagion to spill over into interbank contagion as cross-border holdings of Portuguese sovereign debt by non-Portuguese banks spread doubts about their portfolios.

Portugal's attempt to uphold its full faith and credit – its market function of liquidity provision – thus came under fire from cascading ripple effects outpacing it on all fronts of its virtual velocity, i.e., from its function of providing raw data for arbitrage. Betting on further fiscal deterioration and downgrades, flights-to-safety from Portuguese to German and U.S. sovereign debt, interbank portfolio restructurings, CDS spread explosions, and the other global events of May 2010 with their effects on wholesale and European interbank lending all combined to outpace Portugal's attempts to retain its full faith and credit, i.e., to outpace "contagion" (Twin 2010a; Twin 2010b).

Investments into countries are thus not investments into fundamentals, as the literature claims (Eaton 1993; Panizza et al. 2009; Stiglitz 2010). Criticizing "hot money" markets on the grounds that they are – and that they are insufficient in this regard is likewise problematic (Strange 1998). They are self-referential exploits of arbitrage

opportunities posited by establishing which countries are safe havens and which are not, what investment is safe or not, which arbitrage opportunity yields more profit than others and so forth (Manganelli and Wolswijk 2008). Market speech is performative speech (Austin 1965; MacKenzie and Millo 2003). It steers lending flows exercizing power over the real economy and fiscal solvency of countries and companies alike. The state, embedded into financial speed-space, must engage in market speech, offering its sovereign bonds as a product among products embedded into self-referential financial lending flows following arbitrage opportunities. Financial dromocracy reembeds state functions, subjecting state performance to asset requirements. It thereby embeds the state from its classical slow dromocracy to a fast dromocracy, inscribing it into the trifurcated cybernetic speed-space of arbitrage. A sovereign rating, for example, establishes its virtual velocity against the state's virtual velocity in establishing its own full faith and credit in the context of so-called 'contagion,' i.e., ripple effects and arbitrage opportunities.

The state's establishment of its full faith and credit – both for those states profiting and for those suffering from flights-to-safety – is always already a reestablishment under attack from market speech and facing the task of outpacing it so as to not fall prey to arbitrage. Yet, another state function looms under financial dromocratic conditions. Beyond its role as portfolio stabilizer, Portugal also had to rescue and stabilize its banking system in 2014 (Goncalves 2014). Here, markets are endowed with an agenda-setting power: they technocratically "define situations and set priorities." (Stehr and Grundmann 2011: 46) Firstly, they set the obligation to sustain the financial system without shortening its profits (Mirowski 2013): "[w]e had to do whatever we could to help people feel their money was safe in the system, even if it made us unpopular, even if it helped individuals and institutions that didn't deserve help." (Geithner 2014: 213) State bailouts – the American Troubled Asset Relief Program as well as the European Stability Mechanism – are refinanced by sovereign debt issuance, which means that states rescuing their financial systems remain beholden to their dromocratic rule while doing so. Liquidity provision must remain subject to arbitrage provision. States therefore have an ongoing obligation to prioritize debt servicing (European Commission 2012a: 6-7). As Ireland's finance minister Brian Lenihan put it in 2009: "We need to persuade the international markets that we are capable of taking the tough decisions now to get our house in order." (cited in Considine and Dukelow 2011: 191)

The state can thus bail out because of its full faith and credit. Yet, as said above, this full faith and credit is always a reestablishment subject to the trifurcated speed-space of financial dromocracy. Both ways in which the state is embedded into financial dromocracy alter its temporality. The state's bailouts rely on full faith and credit at once established and threatened in the engagement of state sovereignty with financial dromocracy contained in sovereign debt issuance. They derive their credibility not from the majestically glacier-like temporality of duration guiding the state's classical violence of law, order, and territory (Lefebvre 1991: 278-282). States are tasked with not just adhering to the performativity and technocratic legitimacy of market speech, but also with uphold it at its, and not the state's classical virtual velocity, outpacing instantaneous ripple effects.

Under these conditions, duration and history disappear; "all that remains is a real instant over which, in the end, no one has any control." (Virilio 2008: 18) Unlike the temporality of sovereignty as a territorial monopoly of legitimate violence, which is built upon duration, market-contested state speech is built upon the trifurcated structure of financial dromopolitics. "Implicitly doing away with the "historic" time of politics – more precisely, of geopolitics – and exclusively promoting the "anti-historic" time of the media, the general spread of real-time information causes a radical divide beside which the industrial revolution will pale into insignificance." (ibid: 70) This is not to say, as many a neoliberal anti-statist has claimed, that state speed in classical sovereignty had been slow (Castells 2010: 461-467). Blitzkrieg and **levee en masse**, bullet, warhorse, and flight have all been predicated upon strategic and tactical speed (De Landa 1991: 68-78). Rather, I maintain here that classical state speed is based on a politics of duration. To be sure, sovereignty has to be renewed constantly (Hobbes 2008: 186-193). Yet, this renewal is that of a static order; it is always **restauratio**, **renovatio**, or **rinascita** (Lefebvre 1991: 254-291).

By contrast, the state in financial dromocracy is embedded into all three levels of its speed-space. The state's announcements must be received with the same real velocity as other news in financial monitoring systems. Secondly, its virtual velocity must be higher than that of arbitrageurs. An attempt to restore Portugal's full faith and credit, since it would lower the yield spread between Germany's safe haven bond and Portugal's, must outpace those arbitrageurs taking advantage of the spread – i.e., so-called flights-to-safety. Thirdly, Portugal must try to outpace instantaneous ripple effects, since its distress offers a plethora of simultaneous opportunities for arbitrage, thus incentivizing speculative attacks against it (van Rijckeghem and Weder 2002). Outpacing these differentials, in turn, would tip the scale the other way, potentially engendering self-fulfilling arbitrage opportunities lowering Portugal's interest rates – turning it into a safe haven. It is not enough anymore to defend domestic tranquility; the state is situated inside of the financial field and must stabilize it (Foucault 1990: 92-102). As such, the exercise of dromocratic state sovereignty

must remain within the boundaries of financial dromocratic intelligibility: as market-stabilizing asset issuance, as divine intervention of state bailout and, most importantly, as attempted outpacing of market speech in its trifurcated speed-space.

3. Lehman, AIG, TARP

"Crises" such as the 2007/2008 turbulences posit a peculiar problem in this regard: a contradiction between the necessity of liquidity provision and the problem that arbitrage opportunities close in the course of such provision. Here, too, financial dromocracy relies on the state to uphold both. State sovereignty is incarnated under financial dromocracy as sovereign debt issuance – exposing the state's full faith and credit to the arbitrage supported by the tier 1 capital status of the sovereign debt issued – as well as the outright restoration of market liquidity by bailouts. However, the latter also "calms" markets, i.e., closes spreads and removes arbitrage opportunities arising from turbulent markets (Norris 2011). The 2008 bailouts of the U.S. financial system by the Treasury show that even hegemonic reserve stabilizers like the United States, frequently seen to be above the fray of market turbulence, must conform to financial dromocratic requirements they cannot control (Cerny 1994: 227-228).

The so-called subprime bubble had begun unravelling between mid-2006 and late 2007. As housing prices had declined sharply and foreclosures mounted, asset pools and repackaged securities became problematic. In 2008, Lehman Brothers, Bear Stearns, and Merrill Lynch, investment banks with large exposures to these assets, went bankrupt or were sold off (Roubini and Mihm 2011: 104-105). When this occurred, calls for U.S. bailout dromocracy mounted. The first response – allowing the bankruptcy of Lehman Brothers – was partly intended as a message to "moral hazard fundamentalists" that the U.S. government was not going to let the previous years' financial practices go unpunished (Geithner 2014: 445-450). More importantly, however, I argue that it was an attempt on the part of the U.S. government to maintain its status above financial dromocracy, maintaining classical sovereignty based on duration: "By denying funding to Lehman suitors," said then-president of the St. Louis Federal Reserve, James Bullard, "the Fed has begun to re-establish the idea that markets should not expect help at each difficult juncture." (cited in Morgenson 2014)

On the other hand, taking over Fannie Mae and Freddie Mac and bailing out AIG, as well as the eventual Troubled Asset Relief Program (TARP) were designed to restore financial liquidity (Kindleberger and Aliber 2011: 24). Yet, both of these messages has effects beyond their intentions and thus illustrate how firmly even the United States are embedded into financial dromocracy. Significantly, they intercepted each other and resulted in an interplay which added at least as much 'insecurity' – i.e., arbitrage opportunities rippling outward – as they alleviated.

The decision by the U.S. treasury not to support Lehman Brothers in September 2007 is often cited as the decisive factor turning what had been a looming liquidity shortage due to market distrust emerging from the subprime sector into a full-blown crisis. Prior to the announcement of Lehman filing for bankruptcy (15 September 2008), immediately followed by U.S. Treasury secretary Paulson's statement that the American government would not interfere with the proceedings, investment banks and commercial banks came under fire (Roubini and Mihm 2011: 110-111). Not saving Lehman exacerbated ripple effects which had originated in the unravelling of subprime securitization where "[m]ortgages of various qualities" had been "rearranged into packages of various sizes and estimated qualities and sold to investors." (Magdoff and Yates 2009: 61)

One of the techniques by which subprime mortgages had been securitized and which had made their unravelling systemically pervasive was asset slicing. Here, a mortgage's first ten years of repayment (principal plus interest) were separated from its second ten years and its third ten years. This way, the original mortgage was converted into three separate vehicles, each with an independent credit rating. The first, more secure vehicle – where payment was more likely – would ideally get a higher credit rating, yet yield lower prices on the secondary market where it would be sold, since its risk was lower (Financial Crisis Inquiry Commission 2011: 113-118). In reality, however, all three tranches would get equal triple-A ratings and be sold at roughly equal prices (Hull and White 2012). Moreover, buyers of the tranches would repackage them further and sell them elsewhere (Magdoff and Yates 2009: 61). The annulment of just one mortgage was therefore bound to have ramifications rippling far beyond its originating financial institute.

Asset repackaging and its unravelling exhibit the ripple effect characteristics of financial dromocracy. In a hot potato market, the strategic dissimulation of what is really contained in any given financial asset is identical to the asset itself, whose sole purpose it is to be repackaged as quickly as possible (Financial Crisis Inquiry Commission

2011: 129-133). When repackaging functions properly, the dissimulation is successful and the difference between the subprime content of each tranche and its triple-A packaging does not enter the realm of Virilian phenomena (Virilio 2008: 12). Markets subject to "yield panic" will invest in ever riskier loans and ever more complex and interdependent financial instruments, raising market risk to ever higher levels while kicking their own cans down the road – with a profit (Hau and Thum 2008: 716). By the time the difference between the triple-A packaging of the tranche at hand and its actual subprime content becomes visible, the "crisis" has begun (Hull and White 2012). the localized doubt about one such asset – the discovery of the localized accident – is identical to the generalized doubt of all such assets (Virilio 2008: 69). Kicking the subprime can down the road of financial repackaging entails an ever longer chain of dissimulation whose emergence as phenomenal dissimulation is identical to the unravelling of the entire chain, i.e., the generalized accident.

By the same token, generalized unease mounts, not least because black-swan doomsaying is a profitable business whose prophecies are often bound, and indeed guaranteed to eventually be true (Roubini and Mihm 2011: 38-60). Once "doubts" about just one asset on someone's portfolio arise – i.e., the information that there was dissimulation – the surface of triple-A assets falls apart everywhere into three separate statements: that there was dissimulation; what had been dissimulated (i.e., the subprime character of the asset); and most importantly, that the sudden emergence of the difference between the former two requires a portfolio restructuring away from the asset. Thus, three further movements occur: repackaged assets and asset pools are cancelled or disassembled; insurances, bets, and financial instruments come due, in turn causing downgrades and margin calls, recalling liquidity and distressing the portfolio holding the asset in question; and general distrust of repackaged securities emerges, removing incentives to continue lending and hence the ability to maintain leveraged portfolios (Kindleberger and Aliber 2011: 257-258).

By 2007, financial actors distrusted each other's portfolios: what if the asset they were sold to was a covered-up toxic asset? (Roitman 2014: 60) Interbank and intra-market lending froze up. In the days after the Lehman collapse, U.S. financial sector lending volumes declined dramatically. This was only the tip of the iceberg, as already "in mid-August [2007, S.E.], borrowers had trouble rolling over maturing issues. The quantity of commercial paper outstanding dropped precipitously … the relevant market threatened to become almost functionally illiquid. […] No data exists on the quantity of interbank lending, but anecdotal evidence strongly suggests that few loans were actually occurring" at the LIBOR rates reached in late 2007 (Cecchetti 2009: 60). When Lehman Brothers collapsed, interbank market interest rates "increased by a factor of 30 to 40 relative to the interest rates on US Treasury bills" (Kindleberger and Aliber 2011: 258). Financial dromocracy ground to a halt: with disappearing flows, ripple effects and hence arbitrage opportunities disappeared. The U.S. Treasury's attempt to remain above the fray and merely preserving the order of financial dromocracy as such had failed.

Never mind the original mortgage borrowers, for whom almost no relief was offered. In this situation, as said above, it was the primary – almost exclusive – task of the state to preserve the field of financial arbitrage through outright liquidity provision and at minimal reduction of the profits of the firms rescued. This is precisely what happened subsequently. To be successful, the bailout message sent had to fulfill a number of presuppositions. First, the state must assert its bailout ability – i.e., its sovereignty operationalized as full faith and credit according to the demands of financial dromocracy. This was not much of a problem for the U.S. Treasury, whose full faith and credit is supported by its status as a global safe haven asset producer (Longstaff 2004). It does not seem as if this status could ever be endangered – even the 2011 and 2013 debt ceiling standoffs and a downgrade (!) have not been able to challenge it.

Secondly, it is important to remember that this safe haven status comes at the expense of other asset classes – non-U.S. sovereigns and commodities in particular (McCauley 2002). Thus, a different kind of obligation arises, as important or even more important than full faith and credit as such. As the state restores liquidity by outright bailout and its refinancing through sovereign debt issuance, not only do some spreads close (TED in particular) and some commodities prices go down (gold in particular), but markets "calm," which is to say, arbitrage opportunities are somewhat harder to come by (Norris 2011). This puts the additional, but no less important obligation on the state to orchestrate its bailout such that it preserves systemic liquidity without depressing arbitrage opportunities – and hence profits – too far.

Moreover, this had to happen quickly, as the Lehman bankruptcy set cybernetic ripple effects in motion through financial speed-space: "[t]he result was a sudden hoarding of cash and cessation of interbank lending, which in turn led to severe liquidity constraints on many financial institutions." (Cecchetti 2009: 57) By late September 2008, yields on short-term U.S. Treasury Securities were at zero or negative, which meant that safety-oriented investors paid the Treasury to hold their money (U.S. Treasury 2015b). Clearly, another state signal needed to be sent. When the

American International Group (AIG) came under distress in September 2008 as its structured debt securities were affected by the general unravelling of financial assets after Lehman's fall and its liquidity dried up, this proved decisive (Geithner 2014: 191-192). The bailout was approved on the same day AIG's distress had emerged, 16 September 2008 (Stein 2012: 99). Speed was crucial as the virtual velocity of the AIG bailout signal had to be higher than those of "doubt," i.e., the lending freeze increasingly grinding financial dromocracy to a halt (Karnitschnig et al. 2008). Likewise, saving only AIG would leave arbitrage opportunities intact since it, too, would be only a minimal intrusion into financial dromocracy.

Yet, by the same token, the localized response to the general accident was not enough, as a sense persisted that AIG might have been a singular occurrence (Egginton et al. 2010). Spreads indicating market turbulence reacted adversely: the TED spread between the three-month LIBOR average and the yield of three-month U.S. Treasury Bills, commonly used as indicator for market turbulence, did decline somewhat from 3.03 on 17 September 2008 to 2.9 on 26 September 2007, but reached its peak at 4.3 only on 14 October 2008 (Federal Reserve Bank of St. Louis 2015). After all, a merely localized response was subject to its instantaneous undoing by ripple effects presenting arbitrage opportunities; in this case, towards "safety" and hence drying up liquidity.

The exercise of sovereignty by the U.S. Treasury was thus surrounded and shaped on all sides by the cybernetic effects of market dromocracy. Would the bailout of AIG remain the only one, setting the Lehman ripple effects back into force? Would the bailout of AIG signal an override of the Lehman signal, calming markets? By the same token: would calmer markets mean less turmoil and hence less opportunities for arbitrage and the profits derived from arbitrage? Would this mean that profit from turbulence would have to be made now rather than later, i.e., that it was individually rational to worsen the collective situation? The only general response to the general accident, preserving financial dromocracy as a whole and its arbitrage opportunities – was the inauguration of the Troubled Asset Relief Program (TARP) in early October 2008. Only its blanket guarantee, it seemed, could outpace the instantaneous virtual velocity of asset unravelling and restore liquidity (Geithner 2014: 224-227).

To preserve arbitrage opportunities at the same time, TARP's mode of deployment remained that of a signal akin to the AIG and Lehman, rather than deriving its efficacy from its actual investments. To be sure, TARP supported asset relief and financial portfolio recapitalization in a total volume of $426.4 billion (Tracy et al 2014). However, TARP payouts and actual support measures did not start until October 28, when the US government acquired shares from five large investment banks, while its calming effects on markets were exhibited earlier, immediately after the initial announcement of these takeovers by the US government on October 14 (Solomon et al. 2008). Nor did the majority of the transactions pursued through TARP amoung to simple asset purchases. Rather, the U.S. government bought a minority of assets, while negotiating mergers and otherwise giving guarantees (New York Times 2008). Shares TARP acquired came without assuming operative capital over the companies involved (Solomon et al. 2008). Finally, the program was refinanced by the issuance of Treasury Securities, thus providing safe haven assets at the same time as the outright bailout – and hence maintaining the arbitrage opportunities posited by depressing commodity prices and foreign sovereign bonds.

To be sure, even after TARP's initial rollout markets remained at considerable unease, as international financial ripples and the bankruptcy proceedings of General Motors and Chrysler lagged on, combined with a recession in the US real economy (Yellen 2009). The TED spread, a measurement of credit risk perception, fell back to its pre-October 2008 level only by January 2009 (Federal Reserve of St. Louis 2015). Monetary policy to date has not recovered, as even seven years after the crisis an increase in Federal Reserve interest rates was ill-received (Hilsenrath and Leusbdorf 2015). Nevertheless, TARP achieved its objective of "calming markets." Trading volumes went up again as US interbank market interest rates decreased (Roubini and Mihm 2011: 178-179). In 2010, the recession was declared over (Hulbert 2010). Not only had TARP's virtual velocity indeed been faster than the ripple effects activated and exacerbated by the uneasy coexistence of the previous AIG and Lehman signals; it has also succeeded in restoring the financial system's profits were restored and the entire dromocratic edifice.

In all three cases, then, Lehman, AIG, and TARP, sovereignty under market dromocracy even of the world's safe haven asset producer remained beholden to trifurcated market speed-space. As state speech moves with the same real velocity as market speech, its virtual velocity must outpace it. Attempting to preserve the state's rule merely as neutral arbiter is not enough – as the Lehman case shows, it is interpreted by markets as a non-intervention, which is an intervention in the sense that it does send a message. By the same token, a real bailout of just one institution solves nothing as it is merely a localized response to a generalized accident. Markets calm not because individual institutions are being supported, but because it is announced that they all are being supported. The real occurrence of a bailout is a derivative function of its virtual announcement in the dromologically saturated landscape of financial information

arbitrage.

By the same token, TARP did not "assuage fears" or "restore tranquility" so much as exchange one particular arbitrage circuitry with another one. The profits which had been made with subprime lending and which moved into TED spread speculation and banking consolidation during the "crisis" have moved to other arbitrage opportunities: commodities, a resurgence of partly dark pools of complex assets, and Chinese stock markets. After 2012 in particular, commodities trade increased significantly, including the aluminum arbitrage acitivites mentioned above (Ascher et al. 2012; Baer 2015). TARP guarantees have also allowed portfolio diversifications in other directions, such as dark asset pools (in 2014 in particular) and Chinese stocks (Mooney 2015). What has not been achieved is the actual purpose of TARP, the restoration of lending to the American real economy: "Treasury … provided the money to banks with no effective policy or effort to compel the extension of credit. […] It was therefore no surprise that lending did not increase but rather continued to decline well into the recovery." (Barofsky 2011)

What then was the real effect of "rescue" state speech if its stated effect – "[w]e had to do whatever we could to help people feel their money was safe in the system" (Geithner 2014: 213) – has evidently not been achieved? When state speech "stabilizes" financial dromocracy, it delivers data to the algorithmic circuitries of financial intermediation. Depressing some spreads and opening others, state intervention delivers the markets from lending freezes and restores their funding flows across arbitrage opportunities. Some of these are helpful to the state itself: US Treasury Securities remain highly desired. Yet in the vast majority of all cases, state speech is merely another signal in the labyrinthic maze of financial arbitrage; globally integrated yet significantly disconnected from the real economies of the world.

4. Conclusion: Persistent Crisis, Arbitrage and Instability

Another example for this would be the European case, where the equivalent to TARP was a mixture of a program by the European Central Bank called Outright Monetary Transactions (OMT), combined with a rescue facility for governments called European Stability Mechanism (ESM). As in the case of TARP, the actual occasion on which markets "calmed" were not these programs themselves, but their announcement, i.e., ECB president Mario Draghi's now famous message that the ECB would do "whatever it takes" to save the Euro in 2012 (Rachman 2014). In the Eurozone "crisis," too, a generalized response to a general accident seemed necessary – and as in the American case, the Eurozone crisis is still on-going and growth in the Eurozone has yet to be restored (Shambaugh 2012; Blyth 2015).

Much like the post-crisis United States, the Eurozone has yet to return to robust growth because neither of the two economies has been able to restore lending to its real economy. In the US, tapping into financial markets has been difficult for real economic firms since 2007. In Europe, too, where bank lending to businesses is their main source of refinancing, this lending has been lagging since 2009, with no sign of picking up (Abbassi et al. 2015). In both cases, this has been despite the effects of the generalized 'rescue' statements, TARP and Mario Draghi's 'whatever it takes.' (Likewise, beyond the scope of this paper, this has in both cases been despite ultra-low interest rates.) The modus operandi of financial dromocracy, as this paper has argued, is to maintain a certain permanent degree of market turbulence or "crisis." There must always be enough instability for spreads and differentials to present arbitrage opportunities. Yet, the level of instability must never reach to point where liquidity stalls. This is where the state comes in. Indirectly, it restores liquidity as a provider of safe haven assets allowing leveraged transactions. Directly, the state restores liquidity in a lending freeze through outright bailout programs. Yet, as TARP and its European equivalent OMT show, this must in turn conform to financial dromocratic presuppositions, restoring liquidity without flattening arbitrage opportunities or assuming executive power over financial businesses.

Thus, this paper has shown three elements of state bailouts under financial dromocracy: their trifurcated structure corresponding to the speed-space of financial dromocracy; their reconstitution of state speed from duration-based domestic tranquility to the outpacing of financial dromocratic ripple effects; the persistent necessity of upholding a certain amount of instability for the financial circuitry. Moreover, I have argued here that financial dromocracy not only reshapes and reconstitutes state sovereignty, but also global real economies and economic policies towards maintaining persistent instability. Financial dromocracy, the "infrastructure of the infrastructure," operates by pervading, reshaping, and remodulating every aspect of the global economy as a generalized field of arbitrage opportunities. This is an exploitative and parasitic strategy vis-a-vis global real economies (Rodrik 2011). Since these

global arbitrage opportunities are best exploited under conditions of permanently maintained financial instability – secured and preserved by state funds harnessed as sovereign debt and outright bailout – financial dromocracy reconstitutes the world not just as a field of global arbitrage, but also as a persistent and global "crisis."

Endnotes

1. Parts of this paper's second section were presented at the 2014 annual conference of the ISA South in Richmond, VA. A different version of parts of the first section has been published as "What the Eurozone crisis can tell us about Sino-American relations" in the Virginia Tech Institute for Policy and Governance's Reflections and Explorations: A Graduate Student Commentary. I would like to thank Scott Nelson, Max Stephenson, and the respondent at ISA South for their insightful feedback on the different versions of this manuscript.

2. In this respect, it is noteworthy that only a handful of states – all of which are members of the Five Eyes, the Eurozone, and the BRICS group – are eligible for this under Basel II and Basel III regulations. Since a significant portion of global leveraging and resulting contagion relies on this status, however – particularly in the Eurozone, where it is arguably responsible for the GIIPS' suffering, as I will argue below – this leads to the somewhat surprising conclusion that sovereign contagion and resulting crises are actually luxury phenomena. Countries whose sovereign bonds are not eligible as tier 1 assets cannot be subject to the lending dynamics in the Eurozone crisis.

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