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Carleton University

**The Polanyian Double Movement and the Context of International Finance:
An Examination of Emerging Countermovements**

**A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfilment of
the requirements for the degree of
Master of Arts**

Institute of Political Economy

by

Elizabeth Friesen

Ottawa, Ontario

**May 2000
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The Polanyian Countermovement and the Context of International Finance:
An examination of emerging countermovements

submitted by Elizabeth Friesen
in partial fulfilment of the requirements for
the degree of Master of Arts

A handwritten signature in black ink, appearing to be 'R. M. H.', written over a horizontal line.

Thesis Co-Supervisor

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Director, Institute of Political Economy

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May, 2000

Abstract

This thesis applies Karl Polanyi's concept of the double movement to international financial markets as they have developed from World War II to the present. In the double movement, movements, originating in free market processes, eventually place intolerable stresses on society. In response, countermovements, that develop within society, seek to place constraints on free market processes in order to eliminate the source of these stresses. This thesis examines the countermovement which produced the Bretton Woods system, then, it outlines the movement to financial deregulation and liberalization which developed after the failure of Bretton Woods, and, finally, it argues that two different kinds of countermovements are taking shape in the world today. The first is based within the society of international finance; the second is based outside the financial system. The thesis examines these countermovements and focusses on the very different potential outcomes of these two different approaches with respect to the long term sustainability of the international financial system, as well as with respect to issues of social justice.

For Bill

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The Polanyian double Movement and the Context of International Finance: An examination of emerging countermovements

Introduction

In recent years, liberalized international financial markets have become large, powerful, and increasingly unstable. The interests of financial market actors increasingly come into conflict with the interests of states and their citizens, and yet, the process of liberalization, growth, and innovation in international financial markets continues to find substantial support. This thesis will consider this apparent paradox and examine what new sources of stability and governance in the international financial system might be developing.

This thesis disputes the fundamental assumption of neoliberal theory that free market processes alone are sufficient to impartially and automatically maximize “efficiency” and “welfare”. Instead it will be argued that, in functioning market economies, market processes depend on a supportive “context” which not only provides substantial support to markets by creating and maintaining the conditions necessary for markets to function successfully, but also, ultimately, determines the form market processes take in a given society. Important elements of this context are often highly naturalized. Harold Lasswell defined politics as determining “Who gets what, when, how”.¹ This phrase could equally well be a definition of the role of markets and this similarity underlines the role of political

¹Harold Lasswell, Politics (McGraw-Hill Book Co, 1936 ; reprint New York: Peter Smith, 1950) (page references are to reprint edition)

power in the construction and maintenance of markets. In practice markets cannot escape politics. Power is central to the establishment, as well as the maintenance, of markets.

An increasing number of scholars recognize that markets are constructed by states. In this thesis this argument is extended to argue that both states and societies are important elements of the “contexts” which construct and support markets. Societies set the limits and scope of market processes. In addition, they provide supports which make market processes tolerable to a given society. In a material sense, this is accomplished by interventions which compensate for the extremes in distribution that result from market processes. From the perspective of values and beliefs, societies can support free market processes by providing a belief system in which market outcomes are perceived as fair, just, or in the long term interest of a “higher” value than immediate material gain.

It is important to appreciate that markets are political and social constructions. Equally, it is important to appreciate that market processes do not automatically maximize welfare. Polanyi recognized the potential of unfettered market processes to lead to their own destruction.² In his concept of the double movement, or movement - countermovement, society acts to constrain the dynamic of unfettered market processes in an effort to protect itself from potentially intolerable outcomes of market processes. Even the most apparently liberal and unregulated of markets function in a larger context and this context is a central factor in determining their sustainability or their collapse. In functioning market systems, markets are supported by context. Countermovements arising from within society, in response to the movement produced by free market processes, are a

²Karl Polanyi, The Great Transformation (1944; Boston: Beacon Press, 1957),132 (page references are to reprinted edition)

source of adjustment in the market-society relationship. In Polanyi's work, countermovements develop as society seeks to protect itself and render the market-society relationship sustainable. This is an important part of a continuous process of adaptation central to the sustainability of any given form of capitalism.

For Polanyi, society is defined at the national level and therefore, according to this definition, countermovements originate within national societies. This thesis will examine the possibility of countermovements originating at the international and even the global level. In addition, consideration will be given to the sources of support these countermovements draw on which are located, not only at the national, international, and global levels, but also at the local level and within the belief and value systems of individuals.

I propose to focus on the role of context with respect to international financial markets. These markets are increasingly deregulated, and deal in the highly fungible commodity of money, credit, and debt. They exist internationally, if not globally, and appear to be beyond the constraint, or interference, of any national society. In recent years, they have grown enormously in scope and scale, while the speed of transactions within these markets has accelerated. International financial markets appear to be an excellent example of a self regulating, liberal market. In this thesis, however, it will be argued that even international financial markets are dependent on a supportive context and that this supportive context is being shaped through an ongoing process of movement and countermovement.

Susan Strange is convinced that the globalization of international finance is "*the prime*

issue of international politics and economics" today.³ A number of commentators have expressed fears of the possibility of a financial crisis which could result in the destruction of the international financial system.⁴ Yet, despite increased instability and an accelerating series of crises, the international financial system continues to survive. This thesis seeks to examine the processes behind this. The role played by states, institutions, societies, and individuals at the national, international, and global level in providing a supportive context for international financial markets will be examined.

Chapter 1 examines the theoretical work which provides the background to this thesis and relates it to the concept of context and countermovement. Chapter 2 looks at the Bretton Woods system and the factors behind the reemergence of liberal international financial markets. Chapter 3 examines the liberalized international financial system as it exists today and focuses on the potential for a countermovement, which would seek to place constraints on free market processes in the interest of contributing to the sustainability and sustainability of the international financial system, developing from within the "society" of global finance. Chapter 4 focuses on the potential for countermovements which seek to constrain international financial market processes to develop outside of the financial system in global "society". The movements supporting the Tobin tax, the Jubilee 2000 initiative, and popular opposition to economic globalization

³Susan Strange, Mad Money, (Ann Arbor: University of Michigan Press, 1998), 18.

⁴Susan Strange, Casino Capitalism, Basil Blackwell 1986; Manchester: Manchester University Press, 1997) ; Manfred Bienefeld, "Capitalism and the Nation State in the Dog Days of the Twentieth Century," in Socialist Register 1994 94-129 ed R. Miliband and L. Panitch (London: Merlin Press, 1994) ; Barry Eichengreen, "How the world dodged another Great Depression," Policy Options (Sept, 1999), 50-53.

will be examined.

Chapter 1

Theoretical Framework

In the world today market processes are frequently promoted as an objective, fair, and efficient means of making, not only economic, but also political and social decisions. This is a dangerous and ill-considered tendency based on an inadequate understanding of market dynamics. In this thesis I argue that extra-market forces form a context for capitalist market processes that supports, as well as constrains, free market processes. Movements by markets provoke countermovements, which develop within societies in response to stresses placed on society. This double movement plays an important part in shaping “context”. Understanding the dynamic relationship between context and market processes is key to understanding the evolution and sustainability of any given form of capitalism.

This discussion builds on three bodies of literature: first, literature which challenges the assertion that free market processes automatically maximize efficiency and welfare; second, literature which argues that the state as well as society and culture play an important role in sustaining capitalist market processes; and finally, literature which examines how movements and countermovements shape the relationship between markets and societies.

I. Challenges to free markets

The roots of the liberal belief in the superiority of market processes may be traced to the work of Adam Smith. In The Wealth of Nations, Smith developed the concept of the market, an order bestowing mechanism, in which every individual acting in his own self interest would automatically maximise efficiency and, therefore, by definition, maximise welfare. However, Smith's 'Society of Perfect Liberty' was based on more than the rigorous application of the principles of the free market and individual liberty. In his writing, Smith recognized the importance of factors beyond individual self interest and the pursuit of wealth, factors such as social and moral values, in maximizing welfare.¹ He also recognized the limitation of market processes in supplying public goods and suggested that this was an important and necessary role for the state.² These two concerns, one related to values and the other to public goods, remain as areas in which free market processes benefit from supports located outside of market processes.

In spite of Smith's understanding of the importance of context in supporting market processes, as economics developed the role of society and the state was minimized and the theoretical construct of the free market model came to dominate. At first, the social context in which economic relations occurred was removed from the field of study by the assumption that this context was constant and by the assertion that its subjective nature placed it outside the proper sphere of "scientific" economic inquiry. Later in the nineteenth century, with the development of marginalist techniques of analysis, abstract and

¹Robert Heilbroner, Teachings from the Worldly Philosophers, (New York: W W Norton & Co. Ltd, 1996), 63.

²Adam Smith, The Wealth of Nations, Book IV, E Cannan ed.(New York: RandomHouse, 1937), 651.

mathematical aspects of economic theory became the focus of the “science” of economics.³ For most of the twentieth century, except for the period after World War II when Keynesian economics was adopted, the discipline has been dominated by neoclassical theory.

Neoclassical economics asserts that free market processes will automatically ensure that the economy will return to equilibrium at a point which maximizes efficiency and therefore welfare.⁴ Hayek and Friedman were the two major forces behind the revival of liberal economics after the Keynesian revolution. Hayek argued that, because all facts can never be known to any one mind, central planning was doomed to inefficiency and failure. A market based price system provided the solution to “the unavoidable imperfection of man’s knowledge and the need for a process by which knowledge is constantly communicated and acquired”.⁵ Friedman maintained that rational individuals, acting in their own self interest, would automatically maximise welfare through the mechanism of the free market and that government interference in this process was an ill. Although he acknowledged that every society had some ‘command’ elements, Friedman contended that a free market system was the best way to promote human prosperity and freedom.⁶

In neoliberal theory, the tendency to ignore the importance of factors outside the processes defined by free market model remained strong. A stable political and social

³From Ricardo, to J. S. Mill, to Alfred Marshall emphasis was increasingly placed on an abstract and quantitative analysis of market relations.

⁴Donald Rutherford, Routledge Dictionary of Economics, (London: Routledge, 1995) s.v. “Neoclassical economics.” 321.

⁵F. A Hayek, “The Use of Knowledge in Society,” The American Economic Review Vol.XXXV, No. 4 (Sept. 1944), 530.

⁶Milton Friedman and Rose Friedman, Free to Choose (New York: Harcourt Brace Jovanovitch, 1980) 11.

environment was taken as a given in neoliberal theory; consideration of the nature, or source, of this environment did not enter into the analysis.⁷ Concern that market processes failed to handle externalities was dismissed by neo-liberals with the assertion that this was an “essentially normative judgement” because “it cannot be shown with purely conceptual analysis that markets do not handle externalities”.⁸ Today, neoliberal theory, locating its roots in the classical liberalism of Adam Smith and characterised by an ongoing process of theoretical abstraction, has become increasingly dominant in defining both expert and popular beliefs about the proper role of free market processes in economic relations.

Literature which challenges the neo-liberal contention that free market processes automatically maximize efficiency can be divided into two groups, the technical and the political. Those who base their critiques on technical considerations argue that free market processes require outside intervention if they are to be stable and sustainable. Those who base their critiques on political considerations argue that markets are not apolitical mechanisms but are instead political constructions based on economic, political, and social power.

i) Technical criticisms of the free market model

Keynes was one of the most influential critics of the neoliberal model writing in the twentieth century. Although he considered himself a liberal, he argued that “to suppose that there exists some smoothly functioning automatic mechanism of adjustment that

⁷Susan Strange, States and Markets (New York: Basil Blackwell, 1988) 14.

⁸Carl J. Dahlman, “The Problem of Externality” in The Theory of Market Failure (Fairfax Virginia: George Mason University Press, 1988) 64.

preserves equilibrium if only we trust to the methods of laissez-faire, is a doctrinaire delusion which disregards the lessons of historical experience without having behind it the support of sound theory.”⁹ Keynes saw fundamental structural problems in the liberal economic model and in, The General Theory, described an economic decline which, unlike that theorized by classical liberal theorists, was not self correcting. The result of such a decline would be high unemployment, low production and widespread hardship. Furthermore, Keynes argued that economic prosperity was dependent on a social and political atmosphere which is ‘congenial to the average business man’.¹⁰ He envisioned a situation in which the self correcting remedy of market forces would not succeed because economic actions were sometimes rooted in behaviour that price changes alone could not alter.

ii) Political criticisms of the free market model

Polanyi was highly critical of the claim that unfettered markets would automatically maximise either efficiency or welfare. He saw laissez-faire as planned and the result of deliberate state action.¹¹ Polanyi examined the concept of market society and argued that historically markets had been little more than accessories to economic life; but that liberal economic theory had defined a new relationship between markets and society in which market processes dominated. Polanyi argued that the mechanism of the market required land, labour, and money to be commodified but that these goods and services were not

⁹John Maynard Keynes in Greg Albo, “A World Market of Opportunities? Capitalist Obstacles and Left Economic Policy” in Socialist Register 1997, Leo Panitch ed. (London: Merlin Press, 1997) 12.

¹⁰John Maynard Keynes, The General Theory (London: Macmillan, 1970), 162.

¹¹Polanyi, 140, 141

commodities in any ordinary sense but were, in fact, fictitious commodities. He concluded that the result of allowing the market mechanism to “direct the fate of human beings and their natural environment” through the application of market processes to these “crude fictions” would result in the demolition of society.¹² Polanyi argued that the dominance of market processes in market societies produced conflict and concluded that a self adjusting market could not exist for any length of time without annihilating the human substance of society as well as destroying the natural environment.

Similarly, Lindblom recognized the uneasy relationship between market processes and society. He believed that economists “miss certain threats to democracy that follow from power in the market”.¹³ He argued that the “automatic punishing recoil” of market processes to disfavoured policy “imprisons” policy making in market oriented societies.¹⁴ For Lindblom, in the United States and Western Europe, policy was imprisoned not only in a practical sense but also “our thinking about politics and economics” was imprisoned in the sense that “we have come to think not of human need and aspiration but of the market system as the fixed element on the light of which we think about policy”.¹⁵ This concern anticipated the growing importance placed on the interests of market actors in policy making. Lindblom suggested that “market oriented systems may have prospered historically only because subtly working social mechanisms...have restrained the total demands put upon them. If these constraints are eroding we may have to look forward to

¹²Polanyi, 73.

¹³Charles Lindblom , Politics and Markets, (New York: Basic Books,1977), 88

¹⁴Charles Lindblom, “The Market as Prison,” in The Political Economy, ed Thomas Ferguson and Joel Rogers (New York: M E Sharpe, 1982), 6,7.

¹⁵Lindblom, “The Market as Prison”,9.

decades of growing disorder in market systems.”¹⁶ Lindblom’s analysis recognized the political aspects of markets as well as the importance of social factors to the stability of market processes.

A number of theorists questioned the concept of “rational economic man” which is the foundation of the free market model. This conception of the individual ignores the potential impact of race, culture, nationality, and gender on economic processes. In this work, definitions of “rationality” or “efficiency” were shown to be highly dependent on the specifics of a given situation. From a cultural perspective, Escobar argued that the free market model was less a product of scientific and rational analysis than a cultural construction. By analysing economics as a culture, it became clear that the liberal economic model was a culturally specific “construction of the world” that had come to dominance due to cultural reasons while other models were suppressed or appropriated.¹⁷ Escobar argued that, in order for capitalism to first develop, it was necessary to restructure the individual and society in a manner consistent with the requirements of capitalist economic processes. Arguably this cultural construction which was necessary for the development of capitalism, remains central to the context which supports it.

For decades, feminist theory has been highly critical of the gender bias inherent in the assumptions behind the definition of the “rational economic man”.¹⁸ For example, since the

¹⁶Lindblom, Politics and Markets, 84.

¹⁷Arturo Escobar, Encountering Development, (Princeton: Princeton University Press, 1995), 62.

¹⁸Simone de Beauvoir, The Second Sex, H. M. Parshley trans. (New York: Random Books, 1961), xviii ; Mary McIntosh “The State and the Oppression of Women” in Feminism and Materialism, A Kuhn and A Wolpe eds. (London: Routledge and Kegan Paul, 1978) 254-289.

free market model fails to address the motivation behind unpaid work in the home, liberal theory chooses to dismiss the question by asserting a theoretically convenient but arbitrary separation between the public and the private.¹⁹ Ramsay, Jaggar, and England all argue that the adoption of “rational economic man” or “the abstract individual”, as the central actor in economic relations, captures only a small part of the totality of human motivations and behaviours.²⁰ This weakness is particularly visible with respect to issues of gender.

Those who accept the market model as the best way to maximize efficiency, welfare, and freedom, make the assumption that human behaviour can be characterized as “maximizing utility to secure self interest”. This privileges economic rights over social rights resulting eventually in a loss of appreciation for social values.²¹ Yet social values are an important aspect of context. For example, markets “intrinsically rely on the operation of social and institutional norms that reflect the incompleteness of contracts.”²² Political and social norms and values not only construct but also support market processes even though neoliberal theory fails to recognize this.

In conclusion, markets are not apolitical mechanisms based on an objective and absolute

¹⁹Nancy Folbre and Heidi Hartmann, “The rhetoric of self-interest: Ideology and gender in economic theory,” in The Consequences of Economic Rhetoric, ed Arjo Klamo, Donald McCloskey and Robert Solow (Cambridge: Cambridge University Press, 1988) 197

²⁰Paula England, “The Separative Self, in Beyond Economic Man, Marianne Ferber and Julie Nelson (Chicago: University of Chicago, 1993) 49 ; Maureen Ramsay, What’s Wrong with Liberalism? (London: Leicester University Press, 1997), 32 ; Alison Jaggar, Feminist Politics and Human Nature (Totowa New Jersey:Rowman,1983), 48.

²¹Vicki Birchfield, “Contesting the hegemony of market ideology,” Review of International Political Economy 6:1 (Spring 1999), 31,33.

²²Isabella Bakker, The Strategic Silence: Gender and Economic Policy (London: Zed, 1994), 3,4

logic which automatically maximizes some ideal measure of efficiency and welfare.

Rather, they are highly political constructions which incorporate, as well as perpetuate, value systems and power structures. Unfettered markets are prone to inefficiency, instability, and market failure but, when complemented by a supportive context which constrains the extremes of market processes and compensates for unacceptable outcomes of market processes in a manner which reflects the values of the community, they can be a useful economic tool. Understanding the role of context in limiting the destructive potential of market processes and the role of countermovements in shaping context, is key to sustaining the more beneficial outcomes of market processes.

II. The role of context

Free market processes are not self sufficient but are embedded in a broader context which is crucial to their success or failure. Markets are politically and socially constructed as well as politically and socially constrained and supported. A variety of formal and informal mechanisms, operating at the level of the state, society and the individual, contribute to a context for capitalist markets. For example, at the state level, laws and institutions defining and regulating market processes domestically and internationally are developed, legitimated, and enforced. At the level of society, the scope and outcomes of market processes are defined in a manner acceptable to a given society. At the individual level, consent, support and cooperation facilitate market processes.

Aspects of context are highly naturalized and virtually invisible. Sometimes, through luck or design, the context is adequate in supporting market processes and a period of

stability is sustained. At the other extreme, if the context is inadequate, a period of economic, political, and social breakdown occurs. Economic history demonstrates that not all contexts lead to stable capitalist market systems and, although a supportive context may not be a sufficient condition for sustaining capitalist markets, it is likely to be a necessary condition for this.

Context is key to understanding the adaptive powers of capitalist markets. The double movement is a means of adjusting to stresses in the relationship between markets and society and producing a more supportive context. Countermovements fine tune context by bringing market processes into line with what is tolerable to a given society. Relying on market processes alone as the main measure of success in a given society, however, runs the risk of supporting activities that, in the name of economic efficiency, may unwittingly contribute to the destruction of the very context necessary to support market processes.

The form contexts take and the impact they have on market processes vary across time and space. For example, the context that developed during the postwar is very different from that which existed during the interwar period. After the war, the conviction that economic instability was linked to political instability and must be avoided at all costs, was widespread. At this time, interventions in market processes were considered justifiable and they formed the basis of the postwar reconstruction. In contrast, in the interwar period, support for intervention in market processes was uneven and highly contested.

Similarly, different conceptions of justice, efficiency, and welfare have a major impact

on the shape markets take in different places. For example, what is considered to be the appropriate role for the market in determining income distribution in society differs substantially between Scandinavia and the United States. As a result, extremes of income distribution, a characteristic of unconstrained markets, are tolerated in the United States, while, in Scandinavia, market processes are constrained with the deliberate intention of moderating extremes in income distribution. Russia presents an example of a country where the context is at present incapable of successfully supporting capitalist market processes. While many of Russia's problems are economic in origin, the political, social, and cultural supports necessary for the successful implementation of capitalist markets are equally lacking. Political impotence, popular confusion, and the rise of organized crime make it extremely difficult for capitalist markets to function in Russia.

A number of theorists have argued that factors external to markets, located in the state, society and the individual, play an important role in sustaining capitalist market processes. In the immediate postwar, pluralist theorists such as Dahl and Lindblom sought to apply free market economic ideals not only to economics but also to politics. By 1976, however, the failure to successfully apply what was essentially a market model to political processes resulted in an increased awareness of the part that power relations played in economics, as well as politics. This resulted in an understanding (developed later in greater depth by Lindblom, see above) that economic processes are unable to incorporate social values in their logic, that they are inherently limited in their capacity to provide common goods, and that they must be supplemented by political and social factors if the supply of such goods

is to be achieved.²³

Giddens developed this point by arguing that the very existence of the market economy depends on state intervention in the first place. For example, the state provides enforceable law regulating property rights, fiduciary money, and “internal pacification” which provides “authoritative resources to stabilize industrial capitalism nationally and internationally”.²⁴ In his analysis, the state is the key to the establishment and maintenance of market processes.

Similarly, the Keynesian welfare state focussed attention on the importance of extra-market power structures, such as the state, in the maintenance of capitalist markets and the capitalist system. According to Keynesian theory, the state had an important role in managing the economy and creating conditions which would allow capitalist markets to function. The widespread adoption of these policies marked the recognition that, in order to sustain a capitalist system of economic relations in the post war world, the state would have to serve popular interests as well as the interests of private property. The success of this approach, although temporary, provided evidence of the important role of the state in the context which supports economic relations in capitalist societies.

At the international level, hegemonic stability theory sought to make linkages between international economics and international politics and emphasized the role of the state in stabilizing economic relations.²⁵ In regime theory, the source of stability in the

²³Robert Dahl and Charles Lindblom, Politics Economics and Welfare, (Chicago: University of Chicago Press, 1976), xxii.

²⁴Anthony Giddens, a contemporary Critique of Historical Materialism, vol. 2 The Nation State and Violence (Berkley: University of California Press, 1987), 152, 154, 160.

²⁵Charles Kindleberger, The World in Depression 1929-1939, revised and enlarged edition, (Berkley: University of California Press, 1986), 289

international system was extended beyond a single hegemonic state to a regime or “sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors’ expectations converge in a given area of international relations”.²⁶ In his concept of “embedded liberalism”, a variation of regime theory, Ruggie argued that international stability can be maintained, even if a hegemonic state declines, as long as “social purpose” is held constant. In Ruggie’s analysis, norms and ideas play an important role in the regimes which stabilize economic relations at the international level.

Polanyi’s distinction between embedded and disembedded economic orders is central to Ruggie’s analysis. Polanyi doubted that it was possible to have sustainable, liberal, international markets because he believed that no structure capable of providing constraints on market processes existed at the international level. Polanyi’s conception of society was national society; he believed that, in the postwar, markets would necessarily be reestablished at the national level under national regulation.²⁷ In contrast, Ruggie argued that international or global markets could be, and indeed had been, embedded or constrained by a kind of global society that international relations conceptualized as a “regime”. Ruggie argued that the “compromise of embedded liberalism”, in which domestic stability was given priority over financial interests, had resulted from the discredited position of international finance and the opposition to economic liberalism and which characterized the immediate postwar.²⁸ This generated a consensus which lasted for

²⁶Stephen Krasner, “Structural Causes and Regime Consequences,” in International Regimes ed Stephen Krasner (Ithaca, New York: Cornell University Press, 1983), 2

²⁷Polanyi, 253.

²⁸John Gerard Ruggie, “International regimes, transactions, and change: embedded liberalism in the postwar economic order,” in International Regimes. Stephen Krasner ed. (Ithaca: Cornell University Press, 1983), 209.

twenty years and provided evidence that a supportive context for capitalist markets could derive from more than the authority of a single overarching state.

Ruggie argued that, if “social purposes” are held constant, regimes would provide continuity even if a hegemon declines. This begs the question, however, of what might be the outcome if “social purpose” changes. Ruggie correctly predicted that the main force for discontinuity in the regime of embedded liberalism was not, as it had been in the interwar, protectionism, but rather what he termed “the resurgent ethos of liberal capitalism”.²⁹ Although Ruggie was mistaken in his belief that the normative framework of embedded liberalism would win out as a central institutional feature of the international economic order, the impact of the reemergence of liberal values demonstrates the accuracy of his belief in the importance of values in regime formation and maintenance.

In his study of international financial regimes, Porter expands the scope of regime theory to include economic actors such as multinational corporations. He seeks to understand why, if international competition is intense between “mutually distrustful sovereign states” do we see such a “surprising degree of regularity and order” in global financial markets. He concludes that “markets are neither natural forces nor objects wielded by states but are rather complex social institutions”.³⁰ This underlines the importance of extra market forces in shaping international financial market processes.³¹

Regulation school theorists also see extra-market factors as important to economic relations. They argue that a given regime of accumulation - a particular pattern of

²⁹Ruggie, 229

³⁰Tony Porter, States, Markets and Regimes in Global Finance (New York: St Martins Press, 1993), 10,8.

³¹Porter, 172

production and consumption - is supported by a mode of regulation. While early regulation school theorists emphasized the role of class struggle in the origin and development of different regimes of accumulation and modes of regulation, regulation school theorists have become increasingly interested in questions of structural cohesion and social agency.³² The two schools of regulation theory which are of most relevance to the discussion of context are the Parisian and the West German schools. Both sought to answer the fundamental question of "how capitalism could survive even though the capital relation itself inevitably produced antagonisms, contradictions and crises" and sought to explain how private economic agents might be brought to act in accordance with the requirements of social and economic reproduction.³³

According to the Parisian school, the dynamic of class struggle, in conjunction with specific institutional forms, societal norms, and patterns of strategic conduct, formed a mode of regulation. In the West German school, social structure became an important object of regulation and the state became the principal agency of this regulation. According to the West German school, the answer to the question of how capitalism could be reproduced, in spite of its inherent tendency to conflict, lay in the state's role in instituting and managing society-wide regulatory procedures or "modes of socialization".³⁴

Brodie and Jenson expanded the concept of the mode of regulation to include the role of community, culture, and values, in sustaining a given regime of accumulation. Brodie

³²Bob Jessop, "Regulation theories in retrospect and prospect," *Economy and Society*, Vol.19 no.2 (May, 1990), 154.

³³Jessop, 1990, 170.

³⁴Jessop, 1990, 179.

argued that “shared understandings” or “‘impositional claims’ - assertions about reality which help create a cultural form in their own image” and play an important part in stabilizing and internalizing the mode of regulation.³⁵ Similarly, Jenson proposed the concept of “hegemonic paradigm”- a set of shared interconnected premises which contains a view of human nature, a definition of social relations and relations among social institutions and the role of social institutions - as a complement to the mode of regulation and concluded that the politics of identity formation is an important part of the process of regulation.³⁶ The mode of regulation is an important part of the context which supports market processes in capitalist market societies.

Attitudes and ways of thinking play an important role in context. In Gramsci’s view, consent was central to the maintenance of any economic order. Clearly consent is an important element of any supportive context for market processes. Gramsci argued that although laissez-faire liberalism was a form of state regulation, introduced and maintained by legislative and coercive means, hegemony was far more effective than direct domination in maintaining support for a given economic order. In conditions of hegemony, the ideological superstructure of politics, education, culture and religion, through a process of socialization, produced the spontaneous consent of the masses to the direction imposed by the dominant group.³⁷ In such a system, in which everyone stood to benefit although not equally, an appearance of social harmony could be sustained and

³⁵Janine Brodie, “Mesodiscourses, State Forms and the Gendering of Liberal-democratic Citizenship,” Citizenship Studies 1, no.2 (1997), 226

³⁶Jane Jenson, “Different but not ‘exceptional’: Canada’s permeable Fordism,” Canadian Review of Sociology and Anthropology 26, no.1 (1989),74.

³⁷Antonio Gramsci, Selections from the Prison Notebooks, (London: Lawrence and Wishart, 1971), 160.

conflict restrained.

Cox defines “civilization” as constituting a mental framework through which peoples understand and interpret their world and contrive their responses to the challenges that confront them.³⁸ This concept is key to the context that supports markets. Civilizations play a fundamental role in determining the goals, as well as the range of acceptable responses, within a given group or community. This self limiting and defining process is often highly naturalized and virtually invisible but, nonetheless, plays a significant role in defining and supporting market processes. For example, Susan Strange draws attention to the emergence of a “business civilization” in international financial markets. She argues that, although international financial market participants are geographically dispersed and, in conventional terms, culturally diverse, they do share a common interest in the stability and profitability of financial markets.³⁹ If this common interest becomes the basis for a civilization which takes its values from neoliberal economic theory, this would provide a useful foundation of shared understanding on which to co-ordinate the construction, support, and constraint of international financial market processes.

In the Foucaultian concept of governmentality, societies “are characterized by a particular way of thinking about the kinds of problems that can and should be addressed by various authorities”.⁴⁰ In this analysis, the formal state becomes a particular form, but not the only form, that government takes. Political power is defined as including

³⁸Robert Cox, “A Perspective on Globalization,” in Globalization: Critical Reflections ed James Mittelman (Boulder, Colorado: Lynne Rienner, 1996), 28.

³⁹Robert Cox, The New Realism (New York: United Nations University Press, 1997), xxiv.

⁴⁰Peter Miller and Nikolas Rose, “Governing economic life,” Economy and Society 19, no.1 (Feb 1990), 2.

economic, social, and personal elements. Values and beliefs become important elements of governance. Miller and Rose argue that the concept of “governmentality” can be “usefully developed to analyse the complex and heterogenous ways in which contemporary social authorities have sought to regulate economic, social, and personal activities”.⁴¹ Governmentality is important in defining what is accepted as the proper role of economic intervention and regulation in a given society.

In Cruikshank’s view “technologies of citizenship” and “technologies of subjectivity” have the common goal of getting citizens “to act as their own masters”; the self is the product of power relations, strategies, and technologies, located in the social and the cultural, both external to the self as well as internalized by the self.⁴² Cruikshank argues that self-governance is crucial to modern democracy. Arguably self governance is equally necessary to context. This suggests that, if attitudes within the individual change, it may have an impact on the relationship between markets and context and eventually provide a basis for a countermovement.

Polanyi argued that, “The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism” and that the state, as well as spontaneous public intervention, shaped the conditions under which the free market functioned.⁴³ Unlike liberals who argue that interference in market processes by forces located outside the immediate sphere of the market would prevent free

⁴¹Miller and Rose, 27.

⁴²Barbara Cruikshank, “Revolutions within: self government and self esteem,” in Foucault and Political Reason ed Andrew Barry, Thomas Osborne and Nikolas Rose (Chicago: University of Chicago Press, 1996), 249,247.

⁴³Polanyi, 140.

laissez-faire market structures from succeeding in maximizing welfare, Polanyi argued that there was something inherent in the organization of markets which produced this interference. He argued the “great variety of forms in which the ‘collectivist’ counter movement appeared was not due to any preference for socialism or nationalism on the part of concerted interests but exclusively to the broader range of the vital social interests affected by the market mechanism.”⁴⁴

Polanyi’s insight into the destructive nature of market processes underlines the importance of a supportive context if market processes are to be sustainable. Through the double movement, the excesses of a given set of market processes were limited by the reaction of social actors in society at large and a supportive context could be reestablished. Polanyi’s definition of “society” was extremely broad and, while his use of a broad and encompassing definition of society made the precise location and nature of the movements and countermovements of the double movement unclear, this was also a theoretical strength. By not attempting to generate clear causal lines or simplify relationships into a rigid structure, Polanyi’s theory was more inclusive of the enormous range of interaction which forms society. His insight stands up well today because it calls attention to the interdependence of the economic, the social and the natural environment.

In understanding the relationship between context and what have become increasingly globalized markets, the international and global as well as the national levels of analysis are important. Since global markets have no fixed geographic base, they are not constrained by an overarching state nor by the social or cultural norms of a given society.

⁴⁴Polanyi, 145.

Therefore, constraints on these markets must be achieved through international or transnational cooperation and the consolidation of diverse interests and values. In the absence of this, a context which provides little or no constraint on international market processes will emerge by default.

For several decades, international markets have been growing in size and scope. This raises a number of questions concerning context. Does this growth limit the policy options available to states and societies? What impact do these developments at the international level have on the effectiveness of states, societies, and individuals in creating and maintaining a supportive context? Will the developments in the “international economy” undermine the supportive capacities of context and thus decrease stability and sustainability, in domestic as well as international markets, or will a countermovement develop which will succeed in re-embedding international markets in a supportive context?

III. The double movement

i) Movement and countermovement

Polanyi argued that unconstrained market forces would eventually destroy society. He argued that as a result of the self destructive tendencies of free market processes, society responded by setting limits on market processes. In this double movement, the “movement” of economic liberalism is balanced by the “countermovement” of social protection. According to Polanyi, the goal of the countermovement was the “conservation of man and nature as well as productive organization”.⁴⁵ Polanyi argued that this

⁴⁵Polanyi, 132

countermovement relied on the support of those most immediately affected by the “deleterious action of the market” and employed “protective legislation, restrictive associations, and other instruments of intervention”.⁴⁶

Gramsci’s concept of hegemony and counter hegemony is similar to Polanyi’s double movement. Gramsci argued that eventually, within a given economic order, incurable structural contradictions would reach maturity, a crisis would occur, and a new order would emerge out of the struggle between political forces which sought to conserve the existing structure and the forces of opposition.⁴⁷ Such a major crisis producing a new order would be similar to that Polanyi described as the “great transformation” of the rise of fascism. In contrast, countermovements present a more incremental means of dealing with structural stresses; in this process of adjustment changes are made but the system avoids crisis.

Cox applied the concept of hegemony at the global level and argued that mutually sustaining changes in production, the international state system, and world order could challenge the hegemonic bloc by forming counter hegemonic historic blocs.⁴⁸ He recognized the importance of social factors to this process. Cox argued that change results from the interaction of both structures and actors, and that structural transformation comes from elements of conflict and contradiction within a given structure which cause alternative structures to arise from within formerly dominant structures.⁴⁹

⁴⁶Polanyi, 132

⁴⁷Gramsci, 178.

⁴⁸Robert Cox, Power and Production vol.1 Production, Power and World Order (New York: Columbia University Press, 1987), 394.

⁴⁹Robert Cox, “Critical Political Economy,” in International Political Economy ed Bjorne Hettne (London: Zed Books, 1995), 32,35.

Cox placed importance on the role of social and cultural factors in shaping countermovements as well as contexts for capitalist market processes. He argued that, as a result of “the current project of neo-liberalism in the global economy”, states are being transformed from “buffers between external economic forces and the domestic economy” into “agencies for adapting domestic economies to the exigencies of the global economy”.⁵⁰ Cox argued that, at the global level, this has resulted in increased alienation and polarization which is in many ways similar to the social dislocation Polanyi described in nineteenth century England. Cox asked what might be the sources of opposition to this and what might possibly form the basis of a Polanyian counter movement. He concluded that opposition would rest on “a revival of the sense of collective responsibility and cross-cultural understanding. Awareness of the problem is the first step. The rest must flow from the experience of many social movements”.⁵¹

Birchfield’s analysis supports the idea that a shift in values can provide a basis for a Polanyian counter movement. She argues that Polanyi demonstrated the negative repercussions of the domination of market processes in society and that Gramsci showed that a “pivotal point” in the maintenance, as well as the transformation, of the market system lies in the realm of popular belief.⁵² Birchfield argues that a philosophical shift in values can be seen as the guiding thought behind the “progressive side of the ‘double movement’”.⁵³

⁵⁰Cox, “Critical Political Economy”, 39.

⁵¹Cox, “Critical Political Economy”, 45.

⁵²Birchfield, 46

⁵³Birchfield, 47.

ii) Movements in international finance

Much work has been devoted to examining the development and impact of international financial markets. In general, there is agreement that, as a result of financial liberalization in the last twenty years, transactions in international financial markets have grown exponentially in volume, speed and complexity. Financial markets are increasingly deregulated and integrated, characterised by enormous flows of money, and dominated by large scale economic actors. They have grown beyond the control of both states and international authorities and behave in an erratic and irrational manner which is potentially damaging to both financial markets themselves as well as the international system as a whole.⁵⁴ There is concern that international financial markets will drain resources from the “real economy” with disastrous results.⁵⁵ The picture emerges of international financial market processes as increasingly posing a threat to stability and sustainability, and yet, increasingly beyond the capacity of existing mechanisms of control. These changes constitute a movement in international financial markets. A countermovement seems necessary if the system is to survive, but what the possible basis for this countermovement or countermovements might be is unclear.

What is the origin of this movement in international financial markets? The following discussion will briefly examine various perspectives on this question. While technological developments have undoubtedly facilitated complex financial transactions and financial innovation, there is agreement that political processes have been key in the deregulation

⁵⁴Strange, Mad Money, 1

⁵⁵Phillip Cerny, “The dynamics of financial globalization,” Policy Sciences 27 (1994), 339,335.

and subsequent growth of international financial markets.⁵⁶ In much of the discussion there is a sense that international financial markets infringe upon, or otherwise limit, the autonomy of the state and its role in the international political economy. A number of states, however, have played an important role in constructing the terms and conditions under which international financial markets operate but, it is important to recognize, however, that the capacity to effect change to the system varies widely between states.⁵⁷

At first, both the United States and Britain were particularly supportive of financial liberalization because of the special benefits they stood to derive. London's long history as a financial centre and the "unique depth and liquidity" of American financial markets, coupled with the role of the American dollar as the key global currency, placed both states in a position to benefit substantially from financial liberalization. The impetus for liberalization of international financial markets originated largely with the United States and Britain, with other advanced industrial states following their lead primarily to protect themselves from the negative effects of losing financial capital and business to deregulated markets in Britain and the United States.⁵⁸

At present there is increasing concern that the financial system is beyond the capacity of any state to control. Strange concludes that "as a result mainly of integration of the

⁵⁶Ron Martin, "Stateless Monies, Global Financial Integration and National Economic Autonomy," in Money Power and Space ed Stuart Corbridge et al (Oxford: Blackwell, 1994), 258 ; Cerny, "The Dynamics of financial globalization," 337,321.

⁵⁷John Goodman and Louis Pauly, "The Obsolescence of Capital Controls?" World Politics 46 (October 1993), 81.

⁵⁸Eric Helleiner, "Post-Globalization: Is the financial liberalization trend likely to be reversed?" in States against Markets, R. Boyer and D Drache eds. (London:Routledge,1996), 203,202 ; Geoffrey Underhill, "Markets beyond Politics? The State and the Internationalization of Financial Markets," European Journal of Political Research 19 (1991), 225,210.

world economy, in finance, transport, communications as well as production, there are some important responsibilities of political authority that no one in a system of territorially defined states is in a position to fully discharge.”⁵⁹ In 1986, she had suggested that the problem of managing and stabilizing the international financial system could be solved only if there were “a change of mind in Washington”.⁶⁰ By 1998, however, she had concluded that financial markets were increasingly beyond the control of states and that the capacity for the United States to act quickly and decisively to avert financial crises was significantly less than it had been in the past.⁶¹

At the domestic level, competing interests within states play a role in determining the structure of international financial markets. For example, the adoption of a system of international financial regulation at Bretton Woods was made possible by a political coalition between labour and industry within the United States. The breakdown of this consensus created an opening for financial interests to increase their influence on the shape of American policy. The movement towards financial liberalization reflected a shift within the state in favour of financial interests and away from the welfare and national industrial concerns which had dominated the policy agenda for several decades. Within the state, the “social bargain” was replaced by a “bankers bargain”.⁶²

Gill argues that global finance is beyond the control of national governments. In his view, international financial markets “discipline” states which deviate from neoliberal

⁵⁹Susan Strange, “Territory, State, Authority and Economy,” in The New Realism ed Robert Cox (New York: St Martins Press, 1997), 10 ; Susan Strange, “The Defective State,” Daedalus 124 no.2 (Spring 1995), 63.

⁶⁰Strange, Casino Capitalism 170.

⁶¹Strange, Mad Money, 1,54.

⁶²Martin, “Stateless Monies”, 271.

orthodoxy. Gill refers to this as “disciplinary neo-liberalism”.⁶³ He argues that the financial system appears under-regulated and vulnerable yet, in spite, of this potential for crisis, governments do not intervene. Even the United States, which Gill argues is in theory capable of countering the forces of neo-liberalism in the world economy, does not. Gill argues that an important reason for this lack of opposition to the dynamic of “disciplinary neoliberalism” lies in blocs of social forces which either will benefit, or believe they will benefit, from liberalized financial markets.⁶⁴

Gill raises the possibility that the “global order has a hegemonic quality in the sense used by Gramsci”.⁶⁵ By connecting Gramsci’s concept of historical bloc to Foucault’s concept of discursive formation and considering this at the collective level, Gill provides a theoretical basis for understanding the social and cultural transformations which have contributed to the dominance of neoliberal values.⁶⁶ Gill’s approach emphasizes the role of community, and individual attitudes, beliefs, and practices, at the national and the international level, in contributing to the liberalization of the international financial system.

The revival of neoliberal ideas, coupled with growing demands for liberalization from large financial firms and multinational businesses, created a new coalition within many states which exerted pressure for financial liberalization.⁶⁷ In finance, a number of

⁶³Stephen Gill, “The Global Panopticon? The Neoliberal State Economic Life and Democratic Surveillance,” Alternatives 2 (1995), 10.

⁶⁴Gill, “Global Panopticon”, 30.

⁶⁵Stephen Gill, “Reflections on Global Order and Sociohistorical Time,” Alternatives 16, (1991), 301.

⁶⁶Stephen Gill, “Globalisation, Market Civilization, and Disciplinary Neoliberalism,” Millennium 24 no.3 (1995),400, 410.

⁶⁷Robert Gilpin, U.S. Power and the Multinational Corporation (New York: Basic Books, 1975) 7,8.

interests and institutions are located not only within the state but, at the same time strongly connected at the international level. For example, as Martin argues, the development of international financial centres located within the national territories of states reinforced the movement towards liberalization. In his view, the dual identity of these financial centres, simultaneously located within and outside of the state, provides an insight into “the desire of Northern States themselves to conform to the dictates of the world financial markets that their centres dominate”.⁶⁸

In addition to interests, ideas played an important part in the movement toward financial liberalization. Government officials in charge of international financial policy frequently were sympathetic to the ideals of market liberalization and this greatly facilitated the shift toward policies supporting financial liberalization in many states.⁶⁹ Bienefeld argues that, in many quarters, the ideal of liberalization became so much an “article of faith” that the belief in the inherent efficiency of unregulated markets was adhered to even in the face of conflicting evidence.⁷⁰

Rose argues that recently, under what he terms “advanced liberal rule” there has been an attempt to “de-statize practices of government, to detach the substantial authority of expertise from the apparatuses of political rule, relocating experts within a market governed by the rationalities of competition, accountability, and consumer demand”.⁷¹

⁶⁸Martin, “Stateless Monies”, 273.

⁶⁹Helleiner, “Post-globalization”.

⁷⁰Manfred Bienefeld, “Financial Deregulation: Disarming the Nation State,” Studies in Political Economy 37 (Spring 1992), 37.

⁷¹Nikolas Rose, “Governing ‘advanced’ liberal democracies,” in Foucault and Political Reason, ed. Andrew Barry, Thomas Osborne and Nikolas Rose (Chicago: University of Chicago Press, 1996), 41.

This represents a new relation between expertise and politics in which “the powers once accorded to positive knowledge of human conduct are to be transferred to the calculative regimes of accounting and financial management”.⁷² Ironically, in “advanced liberalism”, social, political, and cultural factors have been central in supporting the acceptance of the authority of the market and the role of market processes as a legitimate means of making, not only economic, but also social and political decisions.⁷³

Larner’s example of New Zealand illustrates this dynamic. She argues that the idea of “efficiency” and widespread popular acceptance of the need to pursue “efficiency” through neoliberal restructuring of the economy was central to the adoption of neoliberal policies in New Zealand.⁷⁴ In this way, under “advanced liberalism”, a change in values resulted in a shift in the relationship between markets and society and produced what, in Polanyian terms, can be described as the first part of a double movement.

Why, however, did the movement toward financial liberalization provoke relatively little public response or discussion within states? Although this seems to be changing (see Chapter 4), the highly technical quality of the debate around financial issues, as well as the difficulty of linking financial policy with easily identifiable costs has tended to minimize popular debate on financial issues. Many have argued that the perceived need for expert technical knowledge to understand financial issues has become an impediment to popular reaction to these developments and has left financial policy in the realm of expert

⁷²Rose, 54

⁷³Rose, 61.

⁷⁴Wendy Larner, “‘A Means to an End’: Neoliberalism and State Processes in New Zealand,” Studies in Political Economy 52 (Spring 1997), 25,12.

opinion.⁷⁵ As a result, the explanations of neoliberal experts, satisfying in their apparent theoretical simplicity and attractive in their condemnation of government interference in financial market processes were largely uncontested in popular debate.

Further, issues of self interest shape the potential public response to this movement. Helleiner argues that, unlike trade, where the costs of deregulation are clearly linked to identifiable groups, in finance the costs of deregulation are borne in common and, as such, they are less visible and therefore less likely to translate into popular political issues.⁷⁶ Conversely, popular participation in financial markets is an important factor in maintaining support for the ongoing liberalization of financial markets. As the scope and extent of popular participation in financial markets expands, a condition of Gramscian hegemony is created. In this way individuals, although apparently acting in their own financial self interests, are also supporting and perpetuating structures which, in a broader sense, contribute to their exploitation and, arguably, to the instability of the international financial system. The apparent explosion of wealth associated with the liberalization of financial markets, however, seems to confirm the accuracy of theoretical claims that deregulated liberalized financial markets will maximize efficiency and productivity. This dynamic reinforces popular support for the liberalization of international financial markets.

The movement of financial liberalization is propelled by a mutually reinforcing cycle. In this cycle economic and political power, located in international financial markets, influences political policy options within the state and results in policies which favour international financial interests. In turn, these policies reinforce the economic and political

⁷⁵Rose, 41 ; Gill, "Globalisation", 418 ; Strange, *Mad Money*, 111.

⁷⁶Helleiner, "Post-globalization", 194.

power located in international financial markets. This cycle has a number of implications. Rodrick argues that “market discipline” is not a neutral force because it empowers financial markets over other constituencies in society and it does not allow for national diversity in the development of economic policy.⁷⁷ Van der Pijl argues that, while denationalized capital on a world scale forms an informal basis for governance at the world level, this form of capitalist discipline is ultimately self destructive. He concludes that, as a result, states are less capable of dealing with the “challenges of a globalized network society” while the benefits associated with changes in international financial markets appear to go to shareholders and financiers while workers bear the costs.⁷⁸ Thus, as Polanyi predicted, the movement toward financial liberalization will eventually generate conditions conducive to the development of countermovements. The discussion will now turn to a consideration of countermovements in international finance.

iii) Countermovements in international finance

As Polanyi argued, by placing constraints on market forces which otherwise would generate crises and possibly destroy the system, society, which, as he defines it, includes the state, plays a vital role in stabilizing the system. In the post Bretton Woods era, the movement toward the liberalization of international finance has resulted in a decrease in state capacity to pursue policies which are intended to compensate or alter market

⁷⁷Dani Rodrick, “Governing the Global Economy: does one architectural style fit all?” Paper prepared for the Brookings Institution Trade Policy Forum Conference on Governing in the Global Economy. April 15-16, 1999, 22.

⁷⁸Kees Van der Pijl, Transnational Classes and International Relations (London: Routledge, 1998), 77,135.

outcomes.⁷⁹ What then might provide the basis for countermovements in international finance? A number of theorists have suggested various possibilities.

First, although it is clear that financial globalization has reduced the capacity of states to constrain markets, states remain important sites for countermovements. Cohen argues that the option for states to pursue policies constraining financial market processes still exists although the “price” of pursuing such policies has increased. He argues that one must examine “why some countries enjoy more autonomy in this respect than do others” and consider “what accounts for the remaining room to manoeuvre”. He concludes that the determining factor in state action with respect to financial markets is whether or not the economic impact of pursuing a specific policy will be sustainable politically.⁸⁰

Many theorists have expressed concern that the movement toward financial liberalization has produced a system which is both beyond the capacity of any single state to constrain and also dangerously prone to crisis.⁸¹ They call for constraints on financial market processes, but it remains unclear what the basis of such countermovements might be, or what goals might be pursued. Some see the problem as primarily technical. Kapstein sees the goal of government intervention in markets as creating “a level playing field for market participants”.⁸² Although Eichengreen accepts Polanyi’s argument that markets must be embedded in social and political institutions, he calls for a larger role for

⁷⁹Bienefeld, “Financial deregulation” ; Underhill, “Markets beyond Politics” ; Martin, “Stateless Monies” ; Gill, “Globalisation”, 412.

⁸⁰Benjamin Cohen, “Phoenix Risen: The Resurrection of Global Finance,” World Politics 48 (January 1996), 283.

⁸¹Goodman and Pauly, 88 ; Strange, Mad Money ; Bienefeld, “Financial Deregulation”.

⁸²Ethan Kapstein, “Global Rules for Global Finance,” Current History (November, 1998), 358.

states and institutions in regulating the financial sector but pays little attention to how factors located in a broadly defined society might serve to embed market processes.⁸³

Cerny argues that Polanyi's "great transformation" is over and a new "great transformation" will be required at the global, supranational level if "values other than the establishment of a self regulating global market are to be realized".⁸⁴ While Cerny sees this as being accomplished through non-state as well as state based collective action, his list of possible sites for the regulation of transnational financial markets is limited to international institutions, hegemonic states or groups of states, and direct state control over markets as possible sites for regulation.⁸⁵

Bienefeld argues that financial markets require regulation and a Polanyian countermovement is both possible and necessary.⁸⁶ In earlier work, while recognizing the dangers posed by the "retaliation" of global financial markets, Bienefeld called for a domestic political coalition to take, as its top priority, the rebuilding of a strong national financial system.⁸⁷ Recently, while continuing to see the nation state as a key tool in constraining globalized markets, he has included the role of collective political action, social practices, and value systems in "embedding" competitive markets in "social and

⁸³Barry Eichengreen, "How the world dodged another great depression." Policy Options (September 1999), 53 ; Barry Eichengreen "International Financial, National Autonomy and Social Justice," Expert Meeting on International Economic and Social Justice, Pocantico Conference of the Rockefeller Brothers' Fund, New York, 12-14 Nov., 1998, United Nations: ESA/DSPD/BP.1, 4 December 1998, 39.

⁸⁴Cerny, "Dynamics of financial", 339.

⁸⁵Phillip Cerny, "Globalization and the changing logic of collective action." International Organization 49 vol.4 (Autumn 1995), 620.

⁸⁶Bienefeld, "Is a Strong National Economy", 427 ; Bienefeld, "Financial De-regulation", 50.

⁸⁷Bienefeld, "Financial De-regulation", 55.

political structures capable of forcing them to function in the service of society and people".⁸⁸

Many theorists argue that countermovements must be based on international cooperation, however, there are a number of problems associated with this.⁸⁹ At the international level, potential countermovements seeking to reregulate international financial markets face substantial difficulties defining and legitimizing goals. Bienefeld argues that regulatory systems embody political choices which must be legitimized through a meaningful and effective political process and that, while such a process exists at the national level, no such process to develop legitimate goals for a regulatory system exists at the international level.⁹⁰ Thus, on the one hand, even if collective action problems were resolved, the potential for cooperative regulation would be limited by the difficulties involved in generating legitimate policy goals at the international level. Yet, on the other hand, the international competitive dynamic between states in the financial sector ensures that any effort to reverse financial liberalization must be cooperative; otherwise, as Helleiner argues, states that act unilaterally may, not only risk damaging their countries ability to attract capital and financial business but ultimately fail to achieve their purpose of regulating international financial flows.⁹¹ This logic leads to an impasse where states can neither act cooperatively nor unilaterally to constrain financial market processes.

Similarly, Streeck asks if a countermovement against the self-regulating market can develop in an internationalized economy? He asks if the capacity of society to "civilize its

⁸⁸Bienefeld, "Is a Strong National Economy", 436.

⁸⁹Martin, "Stateless Monies"; Underhill, "Markets beyond Politics", 215.

⁹⁰Bienefeld, "Financial de-regulation", 51.

⁹¹Helleiner, "Post-globalization".

economy” will be maintained when economic relations undermine the capacity of states to govern economies.⁹² Citing the example of Europe, he argues that, although a unified economy is being created, the European nation states will not allow themselves to be superseded by a supranational interventionist state built in the image of the Keynesian welfare state. The outcome is what he describes as a “fragmentation of public power in a unified economy”, a growing role for market processes, and a declining role for national systems of economic governance.⁹³ Streeck concludes that states may not provide an adequate basis for a countermovement seeking to “civilize” global capitalism and finds no assurance that this function will be performed by some alternative structure.⁹⁴

Strange too is concerned that progressive liberalization is eroding the “remaining bulwarks of national systems of control faster that they can be replaced by new international systems”.⁹⁵ She wonders, in the face of declining state authority, where the authority to stabilize the system will come from and notes that the integration of worldwide financial markets has sped up the development of the onset of financial crises so governments, now more than ever, need to be prepared to react quickly and decisively. She concludes, however, that, at present, states are less able to this than in the past.⁹⁶ During the negotiations for Bretton Woods, states had both the capacity and political will necessary to regulate international finance; in the 1970s states had the capacity to undertake the de-regulation process, however, at present, the potential of individual states

⁹²Wolfgang Streeck, “Public Power beyond the Nation State,” in States against Markets, ed. Robert Boyer and Daniel Drache (London: Routledge, 1996), 301,300.

⁹³Streeck, 313.

⁹⁴Streeck, 314.

⁹⁵Strange, Mad Money, 140

⁹⁶Strange, “Defective State”, 72 ; Strange, Mad Money, 54.

and the state system to provide a basis for countermovements has been reduced.

However, if countermovements are not necessarily seen as the product of legitimate, meaningful, and effective political processes at the international level, nor seen as necessarily based only on states, it is possible to conceive of emerging countermovements based on other interests in addition to the state system.⁹⁷ Pringle and Watson put forward the concept of states as a series of arenas, or “a plurality of discursive forums”, which play a crucial role in organizing the relations of power. They argue that, as a result of this dynamic, the behaviour of the state is often erratic and disconnected.⁹⁸ This view of the state as a series of arenas is useful in theorizing countermovements because it highlights the fragmented and contradictory power struggles within states and examines how these struggles might produce conflicting movements and countermovements. This perspective also provides a basis for understanding how countermovements can potentially connect transnationally and interact outside the limits defined by the national state.

The possibility that countermovements may develop outside the state, possibly within liberalized international financial markets themselves is raised by Underhill.⁹⁹ He argues that avoiding the negative effects associated with crisis and breakdown in international markets provides a reason for market actors to support market regulation in order to better take advantage of market processes “without too many attendant risks”.¹⁰⁰ Helleiner gives the example of two successful international regulatory initiatives in which American

⁹⁷Cohen, “Phoenix Risen”, 296.

⁹⁸Rosemary Pringle and Sophie Watson, “‘Women’s Interests’ and the Post-structuralist State,” in Destabilizing Theory: Contemporary Feminist Debates ed. Michelle Barrett and Anne Phillips (Stanford: Stanford University Press, 1992), 63.

⁹⁹Underhill, “Markets beyond Politics”, 203.

¹⁰⁰Underhill, “Markets beyond Politics”, 221.

and British bankers, seeking to minimize the risk of an international banking crisis and protect their interests, succeeded in achieving international co-operation on international banking regulation by threatening to exclude foreign banks from New York and London financial markets.¹⁰¹

This idea of a movement developing globally, is developed by Gill. He describes a “supremacist bloc” in which “power resources” are located both inside and outside the state. Gill argues that the movement towards financial liberalization and economic globalization is characterized by “oligopolistic neoliberalism” which, rather than embodying the ideals of free competition, is characterized by protection and socialization of risk for the strong and market discipline for the weak.¹⁰² Gill argues that, in addition to an erosion of state autonomy which shifts power to the global level, in this movement there has been an internationalization of authority and governance in international organizations, transnational firms, private consultancies, and private bond rating agencies.¹⁰³ Thus, countermovements seeking to constrain financial market processes will have to address, or perhaps incorporate, the interests of these emerging economic interests that have national, as well as global, power resources .

Fear of the catastrophic potential of global financial crises has been, and continues to be, important in generating countermovements that seek to constrain international

¹⁰¹Helleiner, “Post-globalization”.

¹⁰²Gill, “Globalisation”, 405.

¹⁰³Gill, “Globalisation”, 418.

financial market processes. If a countermovement develops from within the international financial system, however, even if it succeeds in stabilizing the financial system, it is unlikely that it will have as its goal social justice or, as was the case at Bretton Woods, the autonomy of the welfare state. At present, it is more likely that the sustainability of the international financial system and the protection of the interests of financial market actors will be its goal. It is possible that the “society” of international finance would provide the basis for a Polanyian countermovement shaped primarily by financial interests seeking to stabilize international financial markets in the interest of financial market participants. This countermovement would seek to constrain financial market processes in order to provide for the long term stability and profitability of the financial system.

Another possible basis for a countermovement is society at both the national and global levels. In this kind of countermovement, ideas and values play an important part in a shift in fundamental attitudes to the appropriate role of and scope of financial market processes. Arguably such a shift has already been seen in the remarkable change in popular attitudes to international finance which occurred in response to the financial upheaval of the 1920s and the Great Depression of the 1930s. The ensuing loss of credibility on the part of financial interests made the adoption of financial regulation under the Bretton Woods system possible.

Ideas and values provide a basis for countermovements at the international and global as well as the national level. Streeck asks if it is possible to develop “supranational political and state capacities strong enough to impose market-correcting rights of

citizenship on an international economy?"¹⁰⁴ A related question is, would it be possible to develop supranational ideas and value systems which would play a similar and perhaps complementary role in generating constraints on international markets. Strange asks if moral authority derived from a pre-capitalist society is a necessary support for the economic system and implies a connection between countermovements based on moral, or social values and sustainable economic processes.¹⁰⁵ Mishra argues that, paradoxically, as a result of an "upsurge of the market economy" the economy is "being freed from public control yet at the same time there are rising demands for political participation and growth of interest groups and social movements."¹⁰⁶ Brodie argues that the shift in the broad consensus which grounded the Keynesian welfare state was central to the movement toward economic restructuring and that ideas and values are central to countermovements seeking to oppose this restructuring.¹⁰⁷ Values and ideas played an important part in the movement away from regulated financial markets; arguably they can play an important role in countermovements.

In summary, even though in many respects international financial markets appear to be ideal examples of free markets, they require a broader context which stabilizes and supports market processes, if they are to be sustainable. This context is external to the logic of market processes and is based in political and social factors. In the immediate

¹⁰⁴Streeck, 301

¹⁰⁵Strange, *Mad Money*, 129, 139, 132.

¹⁰⁶Ramesh Mishra, "The Welfare of Nations" in *States against Markets*, ed. Robert Boyer and Daniel Drache (London: Routledge, 1996), 328.

¹⁰⁷Janine Brodie, "New State Forms, New Political Spaces," in *States against Markets*, ed. Robert Boyer and Daniel Drache (London: Routledge, 1996), 385, 396.

postwar, the Bretton Woods system was an important part of the context of international finance, but since the 1970s, the movement towards deregulation and liberalization of financial markets has undermined this. The context of international finance has become less supportive. International financial markets are therefore in the process of becoming “disembedded”.

The potential dangers of disembedded financial markets are well documented by economic historians as well as by critics of neoliberal economics. The means to re-embed financial markets, in order to render economic, social, and political relations sustainable, is less evident. The context of international finance, a complex web of ideas, interests, and institutions interpreted by groups and individuals, at the local, regional, national, international, and global levels, acts to set limits on and support market processes. The double movement results from the dynamic of market processes which produces a movement, or pressure for a shift in the market society relationship. This movement provokes countermovements which originate in various sites and which act to fine tune context by placing constraints on market processes and render their outcomes tolerable to a given society.¹⁰⁸ Sites for movements, as well as countermovements, extend well beyond the relationship between national markets and national societies originally described by Polanyi. For example, the Bretton Woods agreement can be considered an example of a countermovement seeking to constrain finance at both the national and international level. In chapter 2 the Bretton Woods agreement and its subsequent breakdown will be discussed. Chapter 3 will examine the possibility of a countermovement emerging from

¹⁰⁸Polanyi, 130.

within the “society” of international finance. Chapter 4 will examine how challenges to the dominant neoliberal orthodoxy might find expression in countermovements based on international and global society.

Chapter 2

The Failure of Bretton Woods and the Reemergence of International Financial Markets

The adoption of the Bretton Woods system can be seen as an example of a temporarily successful countermovement with respect to international financial markets. Its success as well as its failure provide insights into the potential for constraining international financial market processes today. This chapter will examine how political and national interests were involved in the success and failure of the Bretton Woods system. It will then discuss the way Euromarkets came to be established within the regulated financial framework of the Bretton Woods system. It will outline their development and examine their impact on the international financial system. Finally, the apparent failure of the welfare state will be discussed. Particular attention will be paid to the way the subsequent ideological shift to neoliberalism contributed to the emergence of liberalized financial markets.

I. Political and national interests

The movement which supported the adoption of constraints on a liberal financial order in the Bretton Woods agreement, can be seen as an example of a countermovement. This countermovement can be seen as a postwar attempt by international “society” to protect itself from the excesses of international financial market processes and prevent a repetition

of the economic disasters of the interwar. Although the experience of the Great Depression was fresh in the popular imagination and concern with the negative outcomes of the excesses of financial market processes existed at the individual and local level, in the postwar this concern was expressed and coordinated primarily at the national and international level.

In 1944, a number of conditions were favourable to achieving the Bretton Woods agreement which was “the first successful systematic attempt to produce a legal and institutional framework for the world economic system” while attempting to “reconcile the desire for international stability with the defense of national economic interests”.¹ In spite of this favourable atmosphere, conflict between American and British national interests resulted in a compromise solution in which many of the important elements of the final plan were deliberately left vague and open to future interpretation. While this vagueness may have been a necessary condition for achieving international acceptance of the Bretton Woods Agreement, it also set the stage for its future disintegration.

This compromise illustrates the difficulties inherent in implementing and maintaining regulation of international markets. In the absence of clear over-arching political authority, decisions at the international level must be based on negotiation and agreement. If, however, fundamental conflicts of interest exist between the negotiating parties, be they states or institutions, no consensus may be possible. Agreement and participation by sovereign states is largely voluntary. While, at the national level, political mechanisms work to provide a legitimate, enforceable, and frequently successful process of conflict

¹Harold James, International Monetary Cooperation since Bretton Woods (Washington: International Monetary Fund, Oxford: Oxford University Press, 1996), 9,30.

resolution, at the international level, no such mechanism exists to accommodate opposing interests and develop a politically legitimate and enforceable compromise. The tension inherent in reconciling the narrowly defined national interest with the more broadly defined interest of any given nation in the maintenance of a sound international economic system can only be resolved by effective political processes, at the international or global level. Although such attempts have met with, at best, only partial success, in the past interested parties have been more likely to make the effort to negotiate when recent painful memories of financial disasters have contributed to a belief in the need for international financial regulation.

In the early 1940s, when Bretton Woods was negotiated, the economic dislocation of the interwar period and the associated return to war was an ongoing reality. It was widely accepted that “economic crisis produced political instability and the failure of international cooperation made more likely a breakdown of peace”.² In addition, “a powerful conviction had grown that the fundamental destabilisation of the past decade had stemmed from volatility and irresponsible flows of capital”.³ At the time, the gold standard, a market oriented solution for regulating international financial flows, had been widely discredited as being associated with deflationary forces.⁴ As a result, it had become increasingly accepted that it was the legitimate role and responsibility of statesmen, politicians, and bureaucrats to search out ways to institutionalize international economic cooperation in order to avoid the repetition of the economic disasters of the interwar

²James,26

³James,30.

⁴Richard Gardner, Sterling-Dollar Diplomacy in Current Perspective 3rd ed.(New York: Columbia University Press, 1980), 77.

period.

Morgenthau, White, and Keynes, the key negotiators of the Bretton Woods agreement, were agreed on the need to apply rules in the international financial system in order to avoid the mistakes of the past and to lay the foundations for a sustainable world peace. The disastrous economic events of the 1920s and 1930s had widely discredited private finance and, although many bankers continued to support the ideal of a liberal international financial order, their opinions no longer dominated the negotiations. By the 1940s a coalition of Keynesian minded state officials, industrialists, and labour leaders had increasingly replaced private and central bankers in positions of power in both Britain and the United States. At this time the architects of Bretton Woods “sought to make finance the servant, not the master, of human desires - in the international no less than in the domestic sphere”.⁵

Helleiner argued that the restrictive financial order of Bretton Woods was adopted for three reasons. First, the negotiators sought to protect the policy autonomy of the newly emerging Keynesian welfare state and believed that capital controls were necessary to prevent this autonomy from being undermined by speculative and disequilibrating capital flows. Second, they believed that the stable exchange rates necessary to liberal international trade could not be achieved under a liberal international financial order. Finally, although the United States as a surplus nation found capital controls of little direct interest, after 1947 they were willing to support such controls due to their strategic interest in strengthening Western Europe and Japan in the face of the Cold War.⁶ At

⁵Richard Gardner, Sterling-dollar Diplomacy (New York: McGraw-Hill, 1969), 76.

⁶Helleiner, States and the Reemergence, 4-5.

Bretton Woods, the decision was made to sacrifice free finance in favour of free trade because it was widely believed that a liberal financial order was incompatible with stable exchange rates and liberal international trade.⁷

In addition, the war itself provided a number of conditions which facilitated the agreement. The war-time spirit of idealism and solidarity and the bilateral nature of the negotiations, made possible in part by the lend-lease agreements between Britain and the United States (US), facilitated the early stages of the negotiations.⁸ American recognition of the part American policy had played in creating the conditions for World War II added to the American negotiators' determination to come to an agreement.⁹ The timing of the conference, which coincided with the successful offensive in Normandy as well as the impending American presidential election, exerted pressure on the participants to reach an agreement.¹⁰ Finally, and perhaps most importantly, the war had placed Britain in such a precarious position that, in spite of a number of areas of difference, Keynes had to accept the agreement on the terms the Americans were willing to agree upon. The alternative would have been to "watch Britain enter the postwar period without sufficient US economic assistance to restore even a semblance of prosperity to the economy and without any institutional protection against a return to the international economic anarchy of the 1920s and 1930s".¹¹

⁷Eric Helleiner, "From Bretton Woods to Global Finance" in Political Economy and the Changing Global Order, R. Stubbs and G. Underhill, eds. Toronto: McClelland & Stewart, 1994), 165.

⁸Gardner, xxi

⁹James 33.

¹⁰James, 54.

¹¹James Crotty, "On Keynes and Capital Flight," Journal of Economic Literature, VolXXI, (March, 1983), 64. On the same page Crotty quotes Kahn as writing that at this

Therefore, the conventional economic wisdom of the time, deeply influenced by the disasters of the interwar period, produced a counter hegemony to the pro market hegemony which had dominated in the interwar. This, combined with the determination of the key negotiators to create the foundation for an economically stable international order and the unique conditions associated with World War II, established an environment unusually favourable to the achievement of an agreement defining an institutional framework for the world financial system.

Support for the restrictive financial order was not unanimous however. Substantial differences of opinion continued to exist within governments, as well as within national financial communities, as to the relative benefits of a restrictive versus a liberal international financial order. Furthermore, at the end of the war, different nations had conflicting interests in the emerging economic order. Most notably the conflict of interest between the two major negotiators - the United States (in chronic surplus) and Britain (in chronic deficit) produced a compromise which reflected a lack of commitment to the principles of international financial regulation. This lack of commitment would later become an important factor in the subsequent support for the development of liberalized international financial markets in the form of Euromarkets.

The British and American plans differed in two important respects which reflected the differing national interests of Britain and the United States in the international financial

time Keynes "was terrified of failing to secure an agreement with the Americans". It is interesting to note that at the negotiations in 1919, Keynes had proposed a plan to provide £1000 million of liquidity to Germany to moderate the economically punitive terms of the Peace Treaty - terms which eventually set the stage for World War II. Keynes blamed the rejection of this plan on the Americans. R.F. Harrod, The Life of John Maynard Keynes, (London: MacMillan, 1971), 246, 250.

system. The mechanism of economic adjustment and the issue of the reserve currency were two areas which required extensive compromise between British and American negotiators. Unfortunately, in the rush to finalize the Bretton Woods agreement, "some agreements were negotiated in excessive detail, without any real meeting of minds and without adequate procedures for adjustment in the light of changing circumstances".¹² As a result, strains originating in these two areas of compromise eventually contributed to the disintegration of the Bretton Woods order.

First, in terms of economic adjustment, the British proposed to incorporate mechanisms in the agreement which would make it "as unpleasant and as costly to hold credit balances as to be a debtor".¹³ The United States, as a creditor country, opposed this and instead proposed that par values would change only in the case of "fundamental disequilibrium".¹⁴ In the final compromise, by ruling out the use of exchange rate controls and exchange rate variation to accomplish adjustment except in the vaguely defined case of fundamental disequilibrium, domestic adjustment of prices and incomes was relied on as a method of restoring balance of payments equilibrium. The responsibilities of surplus and deficit countries for domestic adjustment were, however, left unclear.¹⁵

In practice, the inadequacies of the adjustment mechanism were camouflaged in the early postwar years when the US was in a surplus position and the rest of the world was in deficit, however, when a more balanced distribution of economic power was established the shortcomings of the adjustment provisions became apparent. Throughout the 1960s,

¹²Gardner, xxxii

¹³James, 36.

¹⁴James, 82.

¹⁵Gardner, 90.

Germany and Japan ran chronic trade surpluses while Britain and the US ran deficits. The US government opposed any suggestions of devaluing the dollar.¹⁶ Surplus countries were equally unwilling to revalue their currencies and bear the domestic economic costs associated with such action. Under Bretton Woods, adjustment was uneven and dependent on the policy priorities of individual states. This placed ongoing strains on the system. In the mid 60s, it was suggested that Special Drawing Rights (SDR), a new artificial reserve asset might be a way of remedying this problem, but the results were disappointing. James writes “In retrospect ...the SDR appeared as the last and most controversial of the gadgets devised to deal with the weakness of the US balance of payments position rather than the beginning of a new approach to managing the international order.”¹⁷

The second area of compromise under Bretton Woods was in the area of the reserve currency and the related issue of the creation of liquidity. The British proposed the creation of the *bancor*, a new international unit of currency intended to provide the basis for the international financial system. As this was unacceptable to the American negotiators it was at first suggested the *bancor* be replaced by a new system based on a multiplicity of currencies (the Canadian Compromise). A new unit of account to be called “*unitas*” was also proposed. In the final weeks of the negotiations, however, even reference to the *unitas* was removed from the agreement and increasing emphasis was placed on the role of American dollar. In July 1944, a seemingly minor British proposal to change a reference to “gold and gold convertible currencies” to “gold and US dollars” had

¹⁶James, 158.

¹⁷James, 174.

far reaching results.¹⁸ As a result, Article IV, Section 1(a) of the agreement stated that “The par value of the currency of each member shall be expressed in terms of gold ...or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944.”¹⁹

The foundation was thus laid for the special position of the US dollar as the reserve currency in the international financial system. Indeed, what emerged from the Bretton Woods agreement was a de facto dollar exchange standard. The importance of the dollar further increased when, in the immediate postwar, it became evident that neither the IMF nor the World Bank was able to meet the need for liquidity to fund the reconstruction of Western Europe.²⁰ In response, liquidity, in the form of American dollar loans or grants, was provided outside the framework of Bretton Woods, largely under the Marshall plan. This strengthened the central position of the dollar as the reserve currency. As a result, this meant that “the future of the system depended on the self restraint of the anchor currency, the dollar. By and large, the United States fulfilled the required role with great responsibility until the second half of the 60s” when it began to contribute to the developing crisis within Bretton Woods by “turning a blind eye to international economic conditions”.²¹

In practice, the US found itself in a dilemma based on the special position of the dollar. If, on the one hand, the US was to supply adequate liquidity to the world economy it had to run a deficit. On the other hand, the question remained, did this mean the US

¹⁸James, 50.

¹⁹James, 50.

²⁰Alan Milward, The Reconstruction of Western Europe 1945-51, (London: Methuen, 1984), 164.

²¹James, 66.

was exercising an “exorbitant privilege” and living beyond its means at the expense of Europe? As American productivity declined relative to Europe, difficulties inherent in this system of providing liquidity became more obvious. As Triffin had predicted, the US, and the world, found itself on the horns of a dilemma originating in the original compromises of the Bretton Woods agreement. If the US corrected its balance-of-payments deficit, world reserves could not grow adequately. If, however the US continued to run deficits, it would inevitably bring about a “gold and dollar crisis”.²²

Triffin’s solution to this dilemma lay in strengthening the international institutional framework and replacing “gold and currency accretions by gold-guaranteed deposit accounts at the IMF as the major source of increase in world reserves” - a solution ultimately based on international political will.²³ As suggested earlier, however, it was the failure to put international interests above national interests that led to the original compromises of Bretton Woods agreement. When these compromises eventually resulted in serious economic problems, political support was necessary for a resolution to these difficulties, however, this will did not exist. Once again the commitment to regulating international finance did not take precedence over individual national interest. The system, as designed at Bretton Woods, ultimately depended on the US willingly fulfilling the role of a “benign, farsighted hegemonic power”.²⁴ By the late 1960s, the US had become unable and unwilling to accept this role.

It was a lack of commitment on the part of the American government, coupled with

²²Robert Triffin, “Gold and the Dollar Crisis,” Princeton Essays in International Finance No.132 (Princeton: Princeton University Press, 1978), 2.

²³Triffin, 2.

²⁴Susan Strange, States and Markets (London: Frances Pinter, 1988), 117.

the special position of the US dollar as the reserve currency, which became central to the disintegration of the Bretton Woods system in the 1960s and 70s. The use of the dollar to fill the liquidity gap presented a problem when the US could no longer maintain price stability or international competitiveness. In the 60s, when American spending on the War in Vietnam started to escalate, it resulted in a crisis of confidence in the dollar. The failure of the IMF and successive US administrations to address these issues allowed the problem to develop to the point where "By the late 1960s, the system was lurching from one crisis to the next, and the realities of power politics seemed to frustrate any attempts at a systemic reform."²⁵ When Richard Nixon became president in 1969, any remaining American commitment to international economic cooperation was replaced by a commitment to the principles of power politics. In 1971, the US made the decision not to make the difficult adjustments necessary to keep a fixed rate system and unilaterally suspended the convertibility of the dollar into gold, ending the Bretton Woods system of fixed parities. In effect this introduced a "paper dollar standard".²⁶

From 1971 to 1973, although the IMF continued to speak against market forces and in favour of a negotiated settlement in international finance, it became clear that such a settlement would be obstructed by the United States.²⁷ In spite of European and Japanese arguments in favour of capital controls, the US effectively "killed the initiative" in 1973.²⁸ As James writes, "The US would not act as a global monetary saviour, if this meant

²⁵James, 157.

²⁶James, 210. *Strange, States and Markets* (Pinter edition), 107. Gardner, xxxviii.

²⁷James, 225.

²⁸Helleiner, *States and the Emergence*, 109.

altering the chances for a re-election of President Nixon.”²⁹ American inaction guaranteed the emergence of market based solutions by default.

Arguably, at this time the US sought to change the international financial system from the regulated Bretton Woods system to a market-based liberal system for ideological and pragmatic reasons. The neoliberal approach, advocating a minimum role for the state in economic relations, had become increasingly popular in the US. More importantly, US administrators realized that an open liberal financial order would help preserve US policy autonomy in the face of growing deficits. As Helleiner argues, “In the short run, they perceived speculative capital flows as an important central tool in the US strategy of encouraging foreigners to absorb the adjustment burden required to correct the country’s large current account deficits.” and in the long run “The unique depth and liquidity of US financial markets also ensured that private investors, if given the freedom to invest globally, would continue underwrite US deficits through their holdings of attractive US assets.”³⁰

In the US, the political support for the Bretton Woods agreement in 1944, had reversed itself by the 1970s. Arguably, this support had been based on the key players’ perceptions of the risks associated with failure compared to the benefits associated with the success of the agreement. In 1944, Britain and the US were agreed that the risks associated with failing to reach an agreement were very great. In contrast, by the 1970s, the US believed that the disintegration of the agreement would be to the United States’ narrowly defined advantage. Much of the reason for this belief was the result of the

²⁹James, 243.

³⁰Helleiner, States and the Emergence, 112, 114.

American position as a deficit country and the dollar's strength as the reserve currency of the system. Ironically, this state of affairs was the result of the United States' unique position in the international financial system - a position which had developed based on the compromises at the foundation of the Bretton Woods Agreement. In the absence of American support for the regulation of international finance, the outcome of the events of the early 1970s was inevitable and led directly to the disintegration of the Bretton Woods system. As James writes "As each successive crisis exploded on the world stage, the feeling grew that the new situation was too tough to be handled by the old world system, and in this way, stage by stage, the system was demolished."³¹

II. Euromarkets

The growth of international financial markets and what Helleiner refers to as the reemergence of global finance was another factor which contributed substantially to the disintegration of the Bretton Woods agreement and the system regulating international financial system. Although the Bretton Woods agreement officially supported the construction of a "decidedly non liberal financial order in which the use of capital controls was strongly enforced", by the late 1950s and 60s Euromarkets, pools of unregulated and uncontrolled capital, had emerged.³²

Although international financial markets had flourished in the late nineteenth and early twentieth century they were almost completely absent from the international economy after the financial crisis of 1931 until the late 50s when private international financial activity began to increase once again. Helleiner defined Euromarkets as an "offshore

³¹James, 259.

³² Helleiner, States and the Reemergence, 4.

regulation free environment in which to trade financial assets denominated in foreign currencies, predominantly the US dollar".³³ When Euromarkets first emerged in the late 50s and early 60s, this marked the beginning of a major rebirth in international financial and money markets. These new markets became bigger, faster acting, and eventually developed significant financial innovations. The growth and profitability of Euromarkets had a major effect on the structure and character of international banking. They marked the reemergence of the power of the private sector in international finance. Ultimately, it made it more difficult for states to maintain their role as managers of the domestic economy and the international exchange rate system.

Although these markets are referred to as "Euro"markets, being located in Europe was not a necessary characteristic of these markets. Euromarkets can equally well include Asian or Caribbean based financial markets. The prefix "Euro" results from the historical fact that these markets first developed in London and to a lesser extent Europe. Similarly, this activity is often referred to as "Eurodollar" activity because most of the early activity took place in dollars but it can equally well take place in other "Eurocurrencies" such as German marks, sterling, and Swiss francs. The key point is that these currencies are used in private market transactions outside of state jurisdiction. This was commonly referred to as Eurodollar activity because in the 1960s most of this activity took place in Europe and was denominated in dollars. In this chapter, both the term Eurodollar markets and Euromarkets will be used to refer to these markets.

Up to 1963, central banks were believed to be the main participants in Eurodollar

³³Helleiner, States and the Reemergence, 8.

markets; after 1963, however, commercial banks and their non-bank customers became active in Euromarkets.³⁴ Participants eventually included central banks, commercial banks, private corporations, public corporations and speculators. In 1969, Hirsch defined Eurodollar markets as “essentially an extra-national market in bank credit used to finance international but also national trade: the participants are not only in Europe, but also in Japan, Canada and other major trading countries.” Hirsch went on to describe the role of these markets in creating “an entirely spontaneous private credit structure added to the inverted pyramid of international credit that rests on the ultimate gold base.”³⁵ Similarly, Strange wrote that the new phenomenon in international finance, the Eurodollar, became a major engine of credit creation for the real world economy.³⁶

The 1960s were marked by a continuing process of growth and innovation in Euromarkets. Euromarkets initially provided three month short term loans which were, at first, regarded as an offshoot of foreign exchange transactions, but they soon provided longer term loans of up to five years. Eurodollar loans increased in size and, in 1964, the first international consortia of commercial banks was formed to share the risks of large scale lending. By 1974 there were 50 such international consortia.³⁷ In 1966 certificates of deposit were first issued for Eurodollar deposits and a secondary market developed in

³⁴Susan Strange, International Monetary Relations (London: Oxford University Press, 1976), 183.

³⁵Fred Hirsch, Money International (Suffolk: Pelican Books, 1969), 236.

³⁶Susan Strange, States and Markets (New York: Basil Blackwell, 1988), 104.

³⁷Fred Hirsch and Peter Oppenheimer, “The Trial of Managed Money” in Fontana Economic History of Europe 603-697, C. M. Cipolla ed. (London: Collins, Fontana, 1972), 664.

these certificates.³⁸ In the early sixties, banks first issued dollar denominated Eurobonds of up to 15 years, which were marketed to investors around the world. Subsequently a primary and secondary market developed in Eurobonds.

James estimated that the Eurodollar market grew from \$1.5 billion in 1959 to \$46 billion at the end of 1970, while the total Euromarket was \$57 billion in 1970 and \$71 billion in 1971.³⁹ Strange estimated that the Eurocurrency markets grew from \$3 billion in 1960, to \$75 billion in 1970 and, by 1984 after oil revenues had been deposited in Eurocurrency markets, they reached \$1 trillion.⁴⁰ Genillard estimated the Eurobond market grew from virtually nothing in 1962, to \$980 million in 1964, to \$1.2 billion in 1965, and to \$3.1 billion in 1968.⁴¹ By any measure, the growth of these markets was impressive.

Perhaps, however, the most important characteristic of Euromarkets has been the capacity of their market processes to increase financial ties and economic interdependence. As Cooper presciently wrote in 1969:

The most important feature of the Euro-bond and Euro-dollar markets is not alone the geographical dispersion of the participants, nor the rapid growth in size, nor the fact that deposits and securities are denominated principally in US dollars, with smaller amounts in sterling... and German marks... It is all of these things taken together, which imply the coming together of national financial markets which is potentially far greater than is evident from the mere presence of these markets.⁴²

³⁸Janet Kelly, Bankers and Borders: The Case of American Bankers in Britain (Cambridge, Massachusetts: Ballinger Publishing, 1977), 127.

³⁹James, 180.

⁴⁰Strange, States and Markets (Blackwell edition), 105.

⁴¹Robert Genillard, "The Eurobond Market" in The Eurodollar 316-347, H. V. Prochnow ed. (Chicago: Rand McNally, 1970), 322.

⁴²Richard N. Cooper, "Postscript: Updating International Money" in Money International, (Suffolk: Pelican Books, 1969), 598.

Eurodollar markets grew to be enormously powerful financial forces and became a central element in the demise of the Bretton Woods order. In the 1940s and 1950s the financial regulation of the Bretton Woods system was applied with apparent success. Why then, in the late 1950s and 1960s, were international financial markets permitted to be established, markets which would eventually lead to a reprivatisation of international finance? Why did states, which had accepted the necessity of international financial regulation under the Bretton Woods system, allow, or even encourage, this development?

There is no one simple answer to these questions. A number of interests, opportunities and events came together in the establishment of Eurodollar markets. The pursuit of individual interest by states, bankers, businessmen, and investors built Euromarkets. It is doubtful that any one market participant had a clear vision of the eventual form these markets would take, and the private financial power that would come to be concentrated in them. If they had, many would likely have been appalled by the potential for disequilibrating capital flows and the limitations to state sovereignty that came to be associated with these markets in the last quarter of the twentieth century.

Euromarkets developed because they met a perceived need, served an interest and also because the opportunity to develop them existed. In the late 1950s British and European holders of dollar deposits were reluctant to repatriate dollars to the United States. Bolton wrote that in many dollar surplus countries, dollars tended to remain in private hands deposited in domestic banks while European central banks, under pressure from the Federal Reserve not to demand gold for dollars, were reluctant to buy surplus dollars from

their domestic banks.⁴³ As a result dollars accumulated internationally. Similarly, Hirsch described Soviet and Eastern European dollar deposits as the “original impetus” of the Eurodollar market and one of the main sources of Eurodollars in the second half of the 1950s.⁴⁴ After Yugoslav gold in New York had been sequestered by the American government in the early 1950s, Soviet, East European and Chinese holders of dollars derived from export earnings preferred to keep them on deposit in Europe.⁴⁵ While they were unwilling to let these dollar deposits out of Europe, they were willing to lend them out a Eurodollars. While extra-territorial deposits were not new, non-patriation and extra-territorial use of the dollar as a credit instrument in international transactions was, and it was this innovation - the development of the Eurodollar - which provided the foundation for Euromarkets.

A continuous demand for short term credit combined with a large and regular supply of US dollars which originated in the chronic US balance of payments deficit, contributed to the growth of these markets. When, in 1957, the British government banned the use of sterling as a credit instrument to finance third country trade, British overseas banks in London turned to dollar deposits to finance foreign third party trade transactions. Strange argued that Eurodollars were an adaptive device which met the need for an internationally acceptable and easily negotiable instrument of short term credit. Eurodollars were available in large quantities, free from administrative control, convenient, and profitable.⁴⁶

⁴³Sir George Bolton “Background and Emergence of the Eurodollar Market” in The Eurodollar 2-15, H. V. Prochnow ed. (Chicago: Rand McNally, 1970), 7.

⁴⁴Hirsch, 239

⁴⁵James, 179.

⁴⁶Strange, International Monetary Relations, 176.

Eurodollar markets grew because they appealed to investors seeking a secure and profitable place to deposit their investments. Eurodollar markets became a way around the official obstructions in the international financial system. After the return to currency convertibility in 1958 both banks and customers could legally hold dollars. Depositors throughout the world were attracted to Euromarkets, seeking profitable returns on their deposits, protection from local currency inflation and political risks, as well as freedom from taxation.⁴⁷

The attitudes, influence, and interests of bankers were also key in the development of Euromarkets. Bankers had historically supported a liberal financial order and during the 1920s, London and New York bankers had lobbied for independent central banks and free capital movements. While the economic crises of the interwar discredited these views and capital controls were included in the Bretton Woods agreement, these controls were never completely accepted by the banking community.

New York bankers opposed international financial controls on two grounds: self interest, and ideological opposition. American bankers believed that the postwar rebuilding of an open financial system could be a profitable undertaking. In general, American bankers had accepted capital controls only on the understanding that they were temporary. Ultimately they supported a system in which there was complete freedom for capital movements and they remained committed to the principle of financial liberalism. After the events of the 1930s, the banking system had been rebuilt on a firmer domestic base, confidence had returned, and American banks had become increasingly growth and

⁴⁷Genillard, 326.

profit conscious.⁴⁸ Many American banks were attracted to and capable of participating in the opportunities for growth and profit available in Eurodollar markets.

Similarly, at the end of the war, due to the extreme vulnerability of the British payments position, the Bank of England supported capital controls but like the American bankers, they accepted these controls only as a temporary remedy. British bankers were interested in maintaining London as an international financial centre after the war and, like the American bankers, on the basis of both self interest and ideology preferred a liberal, international financial order. As Eurodollar markets developed, it became clear that they provided an ideal means to preserve London's position of importance as a financial centre.

Finally, many bankers saw Euromarkets as a means to establish a liberal international money market and avoid what they believed to be the negative effects of state regulation and capital control in international finance. As Sir George Bolton wrote in 1970 :

Despite the dangerous meddling and interference of governments in the workings of a highly sophisticated mechanism (which they may seek to curb to satisfy their desire for overriding control of all economic activity), the ceaseless ingenuity of the financial world will continue to provide essential facilities even under the most unfavourable circumstances.⁴⁹

Euromarkets developed because they met perceived needs, and served interests but also because conditions existed which allowed these international markets the opportunity to develop. Helleiner argues that the advanced industrial states played a "crucial role" in establishing Euromarkets by granting increasing freedom to market operators through liberalization initiatives, refraining from imposing more effective controls on capital

⁴⁸Kelly, 13,121.

⁴⁹Sir George Bolton, "Background and Emergence of the Eurodollar Market," in The Eurodollar ed. Herbert V Prochnow (Chicago: Rand McNally, 1970), 15.

movements, and preventing major international financial crises.⁵⁰ Both the British and American governments were central in providing the incentive as well as the opportunity for Euromarkets to develop.⁵¹ Strange argues that Euromarkets developed due to two gaps in government controls over the power of banks to create credit: first the US did not regulate overseas assets and second Britain only regulated assets denominated in sterling.⁵² The willingness on the part of both these governments to allow these gaps to exist was key in the construction of Euromarkets.

Both the British government and the Bank of England sought to preserve London's international position as a financial centre. As the long term viability of the sterling bloc came into question in the late 1950s, interest grew in developing London as a financial centre for Eurodollar transactions. By providing a physical location and permitting bankers to operate in London free of regulation, the British government unilaterally created an open system in which it was possible to compete effectively for foreign business and capital.

In the early 1950s, London bankers had sought to regain London's position as a centre of international finance on the basis of a multilaterally convertible sterling, however, a series of currency exchange crises resulted in the imposition of additional capital controls by the British government. British bankers feared that they would be unable to operate freely at the international level after the restoration of convertibility in 1958. In the sterling crisis of 1957, however, London's international bankers stumbled upon what

⁵⁰Helleiner, States and the Reemergence, 8.

⁵¹Strange, International Monetary Relations, 180.

⁵²Strange, States and Markets, (Blackwell edition)105.

would become the solution to these problems - the Eurodollar market.⁵³ In 1957 the British government had restricted the use of sterling to finance trade between countries outside the sterling area. When customers who had been accustomed to finance trade using sterling acceptance credits demanded a new instrument to finance such trade, the London bankers discovered they could provide this by making dollar loans against their dollar deposits of overseas residents. As Helleiner argues, "This business proved so attractive that when the restrictions were removed in early 1959, the bankers continued their new Eurodollar activity. By shifting their business to a dollar basis, the London operators had found a way to preserve their international business without being encumbered by British capital controls."⁵⁴

The Eurodollar market was encouraged by the British government because, by separating international financial markets from domestic financial markets, it provided a mechanism to allow the British welfare state policy autonomy while maintaining London's position as a centre of international finance. The British government effectively encouraged Euromarkets by maintaining an environment in which market activity was unregulated and by providing government support as required. For example, it was the 1962 decision by the Bank of England which permitted the issue of foreign securities denominated in foreign currencies in London that first allowed the development of a Eurobond market.

Kelly wrote that, in the late 1950s and 1960s, both the British and the American

⁵³Helleiner, States and the Reemergence, 84.

⁵⁴Helleiner, States and the Reemergence, 84.

governments shared the view that the development of American banking in Britain was a healthy thing. Britain supported this as a means to further develop London as an international financial centre. The American support of this development was linked to the aspirations of their bankers, their commitment to foreign investment, and support for the expansion of American business abroad.⁵⁵

A variety of American regulations and controls designed for domestic policy ends and to stem the outflow of dollars, encouraged the expansion Eurodollar markets and the involvement of American banks in these markets. Regulation Q, which dated from the 1930s, limited interest payable on American bank deposits. The Interest Equalization Tax, which was first introduced in 1963, was intended to discourage long term foreign borrowing from the US by increasing the cost of this borrowing. In 1965, voluntary controls on foreign investment were implemented and they were made mandatory in 1968. In the same year, the Voluntary Foreign Credit Restraint Program, designed to discourage the export of capital by American Banks, was implemented.⁵⁶

As all these restrictions could be avoided in Euromarkets, this created an incentive to keep American dollars on deposit outside of the US and also provided an incentive for American Banks to open foreign branches and operate, free from domestic regulation, in Euromarkets. Both the Federal Reserve and the Treasury department actively encouraged the banks expansion abroad by supplementing the 1919 Edge Act with further regulations to assist the establishment of new branches abroad.⁵⁷ American banks were allowed to

⁵⁵Kelly, 45,50,52.

⁵⁶Kelly, 49,106.

⁵⁷Helleiner, States and the Reemergence, 89.

operate in London based markets without a reserve requirement or the requirement of a deposit for insurance fees. As a result, these banks could offer more favourable rates while earning higher profits than was possible on domestic accounts.⁵⁸ At the end of 1957, the deposits of American banks in Britain totalled \$318.9 million, by 1972 the total amount had increased to \$41 billion.⁵⁹

The Johnson administration encouraged American multinational corporations (MNC) to use the Euromarkets to finance overseas expansion and the rapid expansion of American MNCs into the European Common Market contributed to the growth of Eurodollar markets. In 1965 American corporate borrowing abroad was 2% of direct investment. By 1968 it had increased to 39%.⁶⁰ Helleiner argued the influx of American banks and MNCs “transformed the Eurodollar market from a short-term money market into a full-fledged international capital market serving needs that had previously been met by the New York market”.⁶¹

American support of Eurodollar markets was also related to the understanding that the liquidity and absence of regulation in these markets was a powerful incentive for market operators to continue to hold dollars. As early as 1960, American bankers had used the argument that Eurodollar markets would have the beneficial effect of reducing the gold drain by encouraging foreign investors to hold dollars.⁶² In the face of growing external

⁵⁸Matthew Shepherd, “US domestic Interests and the Latin American Debt Crisis” in Political Economy and the Changing Global Order 103-115, R Stubbs and G Underhill eds, (Toronto: McClelland & Stewart, 1994), 305.

⁵⁹Kelly, 14.

⁶⁰Kelly, 106.

⁶¹Helleiner, States and the Reemergence, 89.

⁶²Helleiner, States and the Reemergence, 91.

deficits, Eurodollar markets became an important element in the US strategy of avoiding the need to undertake domestic adjustment measures by encouraging foreign investors, both public and private, to finance American deficits. In this way, as the holder of the reserve currency, it was in the narrowly defined self interest of the US to foster a more liberal international financial system as a means of preserving American policy autonomy in the face of growing international constraints.

Finally, Euromarkets benefited from the previous existence of an international banking community and a tradition of international financial cooperation. The development of Euromarkets appeared to be less a radical innovation than the revival of a familiar system of liberal international financial markets. The Bank for International Settlements which was established in 1930, but which became a meeting place for bankers to develop policies of cooperation in the 1970s and 1980s came to epitomize this link between the old financial world and the new.⁶³ Technological advances in transportation, accounting and communications facilitated the development of Euromarkets and contributed to the development of well established channels of communication between commercial banks abroad, through which Euromarket transactions were conducted quickly and efficiently.

For much of the 1960s, the Eurodollar markets were regarded as a novel addition but clearly secondary to national money markets. Problems of management of the effects and activities of these markets remained, for most of the 1960s, “potential and theoretical” and their potential to challenge the regulatory foundations of the Bretton Woods system was not an object of concern.⁶⁴ In 1966, the first conscious attempts to coordinate central

⁶³Hirsch in Helleiner, States and the Reemergence, 17.

⁶⁴Strange, International Monetary Relations, 190.

banks to stabilize the Eurodollar market was attempted. By 1968, a group of central banks had developed an informal practice of acting in European markets to counterbalance any threats to the stability of these markets. In 1969-71 the US enacted regulations aimed at reasserting American control of their banks by requiring increased reserves to be held on Eurodollar loans. In general, however, in terms of controlling Euromarkets, the central banks were busy “undoing with their left hands what little good they had achieved with their right hands”.⁶⁵ Until 1971, when they agreed to suspend the practice, the central banks had reinvested their own dollar deposits in Euromarkets thereby creating additional Eurodollars at the same time as accelerating the growth of their own money supply by adding to the lending capacity of their commercial banks.

Helleiner argued that the relative importance of the liberal tradition in financial affairs in the early twentieth century was the result of its low political visibility which in turn was the result of the complexity and technical nature of financial issues.⁶⁶ A similar argument can be made for the failure to control Euromarkets. Due to their technical aspects, the full implications of the financial innovation of the Eurodollar or the growth of Euromarkets did not lend itself to popular political debate.

By the early 1970s there was growing concern that unilateral capital controls were increasingly unable to handle the growing speculative flows in the international economy. The belief that Euromarkets were “important in providing a base for the speculative activity of market operators” grew and by 1972 disequilibrating capital movements had become a significant factor in making it virtually impossible for large industrial countries

⁶⁵Strange, International Monetary Relations, 192

⁶⁶Helleiner, States and the Reemergence, 28

to maintain par values for their currencies.⁶⁷

At negotiations concerning the future of the international monetary system in 1972, the Europeans argued in favour of cooperative capital controls and “wondered” if Euromarkets should be subjected to some form of regulation in order to limit the extent to which disturbing short term capital flows could be financed through these markets.⁶⁸ The Americans, however, opposed any form of cooperative controls, however, arguing that a more fully liberal financial order would increase economic well being throughout the world. Later that year, when the Japanese and the Western Europeans stressed the need to control capital flows and the US once again opposed these controls. In direct contradiction to the fundamental principles of Bretton Woods, the Americans argued that freedom of capital movements and freedom of trade in goods should be treated as equally important aspects of a liberal economy.⁶⁹

In 1973 the breakdown of the stable exchange rate system further increased West European and Japanese calls for cooperative controls. Again the US strongly opposed these and continued to press for a more liberal financial order. Although the American position was isolated, the US was strong enough effectively to kill the initiative. When, in 1974, the US attempted to insist that the IMF be given the authority to discourage countries from using capital controls, this was strongly opposed by the Europeans and a temporary compromise was reached. In the end however, the American position won out. In the 1976 second amendment to the IMF’s Articles of Agreement, Article 4-1 was

⁶⁷Helleiner, States and the Reemergence, 104.

⁶⁸Helleiner, States and the Reemergence, 106.

⁶⁹Helleiner, States and the Reemergence, 106.

amended to read that “the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services *and capital* among countries.”⁷⁰

Throughout the early 1970s the US acted as a powerful opponent to the regulation of Euromarkets and a successful advocate of a liberal financial order. Why did one of the two main architects of the Bretton Woods order - a country that had extended the ideals of the “New Deal” into the international economy - come to adopt such a different approach to foreign economic policy? As discussed earlier, the growing American understanding of the potential for using the unique position of the American economy to develop a market based or “structural power” was a significant cause of this change in policy. By the 1970s, the potential benefits to the US of using the dollar as a “weapon” in liberal international financial markets were evident.⁷¹ In the short run the goal was to eliminate the American current account deficit by using open capital markets to transfer the bulk of the adjustment burden to foreigners. In the long run, the dominant role of the dollar in international financial markets would ensure that private investors would continue to hold dollars and, in this way, continue to underwrite American deficits. As a result of their rational assessment of national self interest in isolation from the broader issues of stability and sustainability in the international financial system, the US refused to support the regulation of Euromarkets. Instead the US became an effective proponent of increased deregulation in international financial markets.

⁷⁰Helleiner, States and the Reemergence, 110.

⁷¹Helleiner, States and the Reemergence, 112, 114.

III. Ideological shift

An ideological shift as well as a shift in American domestic policies contributed to the withdrawal of support for international financial regulation. As the memory of the 1930s and the war faded, the reasons for rigorously defending the regulation of international finance and the policy autonomy of the Keynesian welfare state seemed less compelling. The apparent failure of Keynesian economics and the welfare state in light of the chronic stagflation of the 1970s contributed to the rise of neoliberalism, undermined the theoretical underpinnings of the Bretton Woods agreement, and provided a theoretical justification for its abandonment.⁷² In America growing uncertainty with respect to the usefulness of Keynesian prescriptions for economic management eventually resulted in widespread rejection of the embedded liberal approach and a return to a neoliberal approach.

In addition, in the US the old domestic political alliance of cold war strategists, New Deal embedded liberals, and industry was replaced by a new alliance between neoliberal advocates and those primarily concerned with maintaining American policy autonomy. Euromarkets played a role in this shift by facilitating the move of MNC financial operations offshore and therefore causing MNCs to develop a direct interest in the emerging financial markets. By the 1970s many MNCs had joined bankers and financial officials in supporting the neoliberal message of deregulation in international financial markets.⁷³

⁷²Helleiner 1994, 77 ; Stephen Marris, "Managing the world Economy: will We Ever Learn?", Princeton Essays in International Finance No.93 (Princeton: Princeton University), (October 1984), 5,8.

⁷³Helleiner, States and the Reemergence, 115-120.

IV. Conclusion

In conclusion the Bretton Woods system of regulated international finance was replaced by a liberalized financial system of international financial markets in large part due to a conflict between individual national interest and the common interest of nations in a stable and sustainable international financial system. At Bretton Woods, the desire to protect society from the excesses of international financial processes was primarily expressed and achieved through the actions of states and ultimately, in the conflict between individual national interests and the interests of the system as a whole, national interests dominated. This produced weaknesses within the Bretton Woods system itself which eventually led to its demise as a system of financial regulation. Although attempts were made to renew the system of financial regulation, a lack of political will, especially notable by its absence in the US, resulted in the failure of these efforts.

Further, the establishment of Euromarkets provided a foundation on which the deregulated international financial order as it exists today was built. The influx of petrodollars into these markets after 1973 immensely increased their size and importance while the increase in lending associated with these deposits eventually resulted in of the international debt crisis of the 1980s.⁷⁴ An unstable and crisis prone liberal international financial order, subject only to the control of market forces, has become widely accepted as a necessary characteristic of the international economy.⁷⁵

⁷⁴E. A. Brett, The World Economy Since the War: The Politics of Uneven Development (Toronto: MacMillan, 1985), 237.

⁷⁵Michael Pettis, "The New Dance of Millions: The Asian Crisis" Challenge (July-August 1998), 95 and Jagdish Bhagwati, "The Capital Myth: The Difference between Trade in Widgets and Dollars" Foreign Affairs (May-June 1998), 7-8. Both these authors accept financial crises as inevitable and advocate defensive planning for and by individual

Euromarkets marked an important first step away from the ideals of a regulated international financial order. Their early success and profitability seemed to provide evidence of the benefits of the liberal approach, however, Euromarkets marked the rebirth of an order in which individual interests triumphed over collective interests in international financial markets. The costs of financial liberalization were collective and therefore anonymous whereas the benefits of liberalization were specific to individuals and groups operating at the international level.⁷⁶ On the basis of individual interest as defined by market processes, collective regulation of finance was eventually abandoned in favour of a liberal international financial order.

States, institutions, and individuals, each pursuing their narrowly defined interests, contributed to the growth and development of Euromarkets. They facilitated the revival of private participation in international financial markets and the eventual shift in financial power from the public to the private. This shift was supported and justified by an ideological shift in favour of a neoliberal view of financial markets as, by definition, efficient and welfare maximising. At present the public regulation of international financial markets in order to stabilize them and reduce their tendency to crisis, appear to have been officially abandoned.

As Strange wrote in 1976, however, sooner or later the political problem of management of an international market economy will have to be faced. Inevitably a choice must be made between cooperating in international management, submitting to the extra-territorial regulation of one dominant authority, or accepting international economic states to minimize their impact.

⁷⁶Helleiner, States and the Reemergence, 205.

anarchy.⁷⁷ In the early 1970s, the choice was made by default. In the absence of agreement on the terms of international regulation of financial markets and cooperative capital controls, it was made in favour of anarchy. The result was the growth of a liberal, international financial market system without any means to be brought under social control, a system which, as Brett wrote in 1985, is prone to “create crises which threaten economic stability and, indeed, civilisation itself”.⁷⁸ Whether this state of affairs can continue or whether a countermovement will develop in which society will once again attempt to place constraints on international financial market processes is debatable. This question will be explored in the following chapters.

⁷⁷Strange, International Monetary Relations, 61

⁷⁸Brett, 248.

Chapter 3

Countermovements within the International Financial System

In the past several decades, international financial markets have undergone a dramatic transformation. With the decline of the Bretton Woods system and the growth of Euromarkets, international financial markets reemerged. At present, international financial markets are largely deregulated, increasingly globalized, highly innovative in terms of the development of new financial instruments, and account for enormous flows of capital each day. In the 1950s global foreign exchange trading was negligible, but by the early 1990s global turnover in the world's foreign exchange markets had reached roughly US\$1 trillion per day.¹ By 1999, foreign exchange trading was estimated at about US\$1.8 trillion per day.² In 1973 the stock of international bank lending was roughly US\$200 billion, by 1992 it had grown to roughly US\$3.75 trillion; similarly new international bond issues grew from roughly US\$200 billion in 1981 to roughly US\$1.7 trillion in 1992.³

What one makes of this transformation depends on one's views on "whether market economies, and particularly the financial systems that enable them to exist and which bind them together, are not only self propelling but also self regulating, or whether they are

¹Eric Helleiner, States and the Reemergence, 1.

²Heinz Stecher, "Time for a Tobin Tax?" (Oxfam G.B. Discussion Paper, May 1999) available from <http://attac.org/fra/toil/doc/oxfam.htm> ; Internet ; accessed 5 March 2000.

³Richard Herring and Robert Litan, Financial Regulation in the Global Economy (Washington DC: the Brookings Institute, 1995) 25-27.

themselves the product of political choices, conflicts, compromises, and structural changes. Is financial globalization an autonomous, self-sufficient process, or is it inherently political?"⁴ The argument at the foundation of this thesis is that markets are political constructions and are subject to market failure. Market failure is associated with the difficulty of including externalities, such as the environment and social issues, in the logic of market processes, as well as problems posed by periodic crises, due to the effect of the business cycle and the tendency of market actors to pursue irrational and speculative behaviour under certain conditions.

Given the tendency of market processes to market failure, it is not surprising that the ongoing liberalization of international financial markets was accompanied by an increase in volatility, instability, and financial crises during the 1970s and 80s.⁵ The 1990s have been characterized by an ongoing, and apparently accelerating, series of financial crises: Sweden in 1992; Mexico in 1994; Asia in 1997; Russia and Latin America in 1998; and Brazil in 1999.⁶ While this is predictable given the trend to deregulation, what is more difficult to explain is why the international financial system is surviving this instability. In the increasingly liberalized and deregulated international financial system, what is containing these crises? In other words, what is providing the stability to the system?

In this chapter it will be argued that extra-market factors are acting to support and stabilize international financial markets from within the financial system itself. The political, institutional, and social factors which contribute to the context of international

⁴Philip Cerny, "Politicising International Finance" Millennium Vol.27 No.2(1998), 354.

⁵Helleiner, States and the Reemergence, 173 ; Strange, Casino Capitalism, 119.

⁶Kapstein, "Global Rules for Global Finance", 355 ; Rodrik, "Governing the global economy", 1.

finance will be examined. A countermovement is developing, located within the society of international or global finance, that has as its goal the maintenance of stable and profitable international financial markets. In the case of international financial markets, “society” means those individuals participating in the processes of these markets. First a brief history of the development of the international financial system with emphasis on the factors which have historically provided stability and support within the system will be provided. Then the complex inter-relationship of states, institutions, networks, and processes, both formal and informal, that provide the context of the international financial system as it exists today, will be outlined and analysed. The final section draws out the implications of this. Is a countermovement, which seeks to construct a new stabilizing context for liberalized international financial markets, emerging? Whose interest will be served by this movement? What kind of financial system will emerge? What is the role of the state in this system? Is power located at the global level as well as the international level in the emerging system? What are the implications for democratic control of the financial system?

I. An historical view of movements and countermovements within international finance

Countermovements and constraints on free market processes have a long history in the international financial system. In the nineteenth and early twentieth century, under the gold standard, substantial flows of international finance took place in an orderly and stable financial system. The automatic, balancing mechanism of the gold standard, in which flows of gold determine the exchange rate and the supply of credit internationally, is often

credited with providing this international financial stability. Susan Strange, however, takes a more institutional view of this era. She argues that British institutions were the main channel through which credit was passed to the rest of the world and, “a series of politically effective arrangements imposed for a variety of reasons, most of them domestic, by one particular government on its financial institutions and financial markets” produced this stability. The willingness and capacity of Britain to, “act as shock-absorber to the system when, every ten years or so, some ‘exogenous shock’... threatened to upset the balance” further enhanced the stability of the system.⁷ According to Strange, the stability of international finance in the nineteenth century was based more on states and institutions than on market processes.

After the First World War, the capacity and willingness of the British to stabilize the international financial system declined, although in the interwar a return to the gold standard was still generally believed to be the best means of restoring stability to international finance. For example, in 1922, the Finance Committee of the Genoa Conference, a committee incidentally dominated by bankers, condemned political interference in the “business of banking” and called for the restoration of the gold standard.⁸ Government intervention in financial markets was held to be appropriate only if and when the bankers failed. The need for a means to fulfill the important role the British government had played in providing the political foundations of nineteenth century financial stability remained largely unrecognized.

Eventually, however, escalating crises and the breakdown of the international financial

⁷Susan Strange, States and Markets, (Blackwell edition), 99,100.

⁸Louis Pauly, Who Elected the Bankers?, (Ithaca, NY, Cornell University Press,1997),50.

system in the 1930s cast doubts on the liberal financial orthodoxy that had shaped the debate in the early interwar years. As Pauly writes, “members of the League [of Nations] discovered in the most painful way, the idea that a technical mechanism can be invented to force automatic, system stabilizing policy coordination in a world whose political structure resembles our own is an illusion. In the early days of the League the illusion took the form of the gold standard..”⁹ Ultimately, in the absence of effective political support, it was impossible to prevent instability and breakdown in the international financial system.

The lessons of the interwar period resulted in a new approach to stabilizing international financial markets, an approach that dominated the post-war reconstruction of the international financial system. The financial dislocation of the 1930s and the ensuing disaster of the Second World War reduced the authority of finance and widely discredited liberal financial orthodoxy. Under the Bretton Woods system, international finance was highly regulated and, in contrast to the interwar period, states took on a major role in the construction and enforcement of the international financial system. Although the Bretton Woods system provided stability in international exchange rates, it did not include an adequate mechanism for the adjustment of exchange rates and this shortcoming led to strains within the system which contributed to the demise of the system.

In addition, the regulatory framework of Bretton Woods was further strained by the re-establishment of liberal international financial markets, or Euromarkets. An ideological shift in favour of liberal economic theory, or what Pauly refers to as a return to “the dream of automaticity”, provided the theoretical justification for the shift away from the regulatory strategies of the Bretton Woods system and the pursuit of efficiency, as well as

⁹Pauly, 139.

stability in international finance, through market liberalization.¹⁰

As was seen in the previous chapter, the highly regulated financial system of Bretton Woods was replaced by a system of liberalized financial markets. In 1970s, in large part due to an influx of petro-dollars in Euromarkets, international lending exploded. In the 1980s, high rates of international lending coupled with unexpectedly high interest rates, precipitated a series of debt crises which presented a severe threat to the stability and even the survival of the international financial system. In response to that crisis a number of international institutions increasingly accepted a role as crisis managers and providers of stability in the international financial system. For example, the International Monetary Fund (IMF) co-ordinated the international response to the debt crisis and the Basle Committee of the Bank of International Settlements (BIS) adopted more systematic minimum capital standards for international banking. In addition, as a result of the debt crisis, the relation between the IMF and the commercial banks shifted from one of competition to one of co-operation as the importance of their mutual interest in working together to minimize sudden shocks to the international financial system became apparent. James argues that at first the IMF and international bank regulators, “needed to ‘corral’ the banks into acting in the general interest, and their own, in a way they would not have chosen had they been left to themselves.” However, “(t)he experience of the debt crisis provided a demonstration that the size of the international private sector was such that it could not escape or evade its responsibilities.”¹¹ In this sense, the international debt crisis of the 1980s provided an important basis for the subsequent development of international

¹⁰Pauly, 78.

¹¹Harold James, International Monetary Cooperation since Bretton Woods (Washington and New York: IMF and Oxford University Press, 1996),408

cooperation in international finance.

II. Sites for countermovements within international finance

The following analysis of countermovements within international finance which act to regulate, constrain, or manage international financial market processes, will be divided into four categories arranged from public to private: first state oriented organizations such as the IMF, the Group of Seven (G7), the Organization for Economic Cooperation and Development (OECD), and the European Economic Community (EEC); second, non state financial institutions such as the Bank for International Settlements (BIS) and its Basle Committee on Banking Supervision (Basle Committee) and the International Organization of Securities Commissions (IOSCO); third, market oriented organizations such as bond rating agencies; and finally unofficial groups and processes such as the Group of Thirty, and the Trilateral Commission. Although many of the above organizations and institutions, such as the IMF and the BIS, appear to be part of the movement toward the liberalization of financial markets, it will be argued that they also play an important role in the countermovement that is developing within international financial markets. This countermovement seeks to constrain international financial market processes in order to ensure their stability, sustainability, and profitability.

i) State oriented financial institutions and organizations

The IMF was originally set up as part of the original Bretton Woods agreement to promote international monetary cooperation and exchange rate stability under the fixed exchange rate system. In the 1970s, when this system was abandoned in favour of floating exchange rates, the Fund's Articles of Agreement were revised to reflect this, although

some attempts at coordination of monetary and exchange rate policies were attempted as late as 1985 when the Plaza Accord was reached. Today, the international money system has essentially become an international laissez-faire system and, at present, the G7 members assume the IMF's original role of monetary manager on the rare occasion when such action is deemed necessary.¹² Since 1976 the IMF has taken on a new role of providing surveillance and crisis management in the international financial system. During the debt crisis of the 1980s, the IMF came to work closely with banks and the private capital market in its efforts to avoid international financial collapse. This resulted in what has been criticised as a 'system' that enforces, with IMF assistance, the interests of foreign banks over domestic prosperity and stability.¹³

In addition, the IMF operates as an international source of information and expertise. It keeps the governments of all members in touch with world economic developments; it provides a venue for officials and politicians from many countries to meet and "network". Corden writes that this makes many decision makers "more internationally minded than they might otherwise be, and it affects their ways of thinking and quality of analysis." Corden concludes that, by furnishing technical support for those governments willing to apply pro-market and fiscally conservative policies, the IMF has contributed to the widespread acceptance of such an orientation.¹⁴ Arguably, the IMF has become an important factor in developing and spreading the values of liberalism in the international financial system.

¹²Max Corden, "International Monetary Fund." In The New Palgrave Dictionary of Money and Finance Vol2 P. Newman, M. Milgate, J. Eatwell eds (London: MacMillan Press, 1992), 480.

¹³ James, 396.

¹⁴Corden, 481, 482

The development of the G7 is linked to the IMF. It was based on an inner circle of ten industrial countries, the G10, which was initially created in 1962 to provide additional financial resources to the IMF. It is a self-selected, informal steering committee for the international monetary system that has responded effectively to international monetary crises both in the 1960s, under the fixed exchange rate system of Bretton Woods, and since 1973, under flexible exchange rates. The G7 summit meetings provide a forum where heads of state can achieve broad based agreement and cooperation on a wide range of economic matters. The activities and responsibilities of the G7 are determined on an ad hoc basis. Its activity levels fluctuate from minimal levels of cooperation to extremely ambitious initiatives and its negotiations tend to be vulnerable to domination by forceful personalities. As such it is an international institution extremely susceptible to the political goals of its participants and provides a useful forum for coordinating and promoting political agendas in international finance.

The OECD was established in 1960. Its broad based mandate is to pursue sound economic growth while maintaining financial stability, expand world trade and extend the liberalization of capital movements. The OECD also provides a source of information and analysis of the world economy, and financial expertise has been an important part of this work. Although it has declined in importance, the OECD Working Party Three was the forum where balance-of-payments problems between Americans and Europeans were discussed in the 1960s. At present, the OECD has a Financial Markets Committee and a Group of Banking Experts.¹⁵ Most of its work is conducted through meetings with high officials not politicians, OECD discussions are informal and confidential and “(m)uch of

¹⁵Susan Strange, Mad Money, 170.

the work required of the OECD is pre-political or sub-political; it is not intended to surface as an OECD product, but to contribute to what may be enacted more publicly elsewhere.”¹⁶ Like the IMF and the G7, the OECD provides a means of cooperation and coordination of financial policy as well as a venue to develop and communicate the norms, values and understandings of an emerging international financial society.

The European Economic Community has played an important role in the liberalization of the international financial system that extends well beyond its immediate impact on Europe. The 1980s saw a process deregulation of banking and the financial sector as well as a strengthening of the internationalization process within Europe. By 1997, virtually all capital controls in the European Union had been lifted and banking and investment services had been liberalized.¹⁷ In addition, as Tsoukalis notes, “little, if any, attempt was made to replace national with European barriers, thus recognizing the increasingly global nature of financial markets. The aim was to create a more liberal and competitive environment which would encourage the further restructuring of the industry...”¹⁸ At present, the role of the European Central Bank as a regulator in the new European financial environment remains unclear while, in the absence of political agreement on regulatory policy the default solution is, by definition, an unregulated market based environment.¹⁹ The project of European unification has contributed to the liberalization of finance, not only in Europe but also around the world.

¹⁶Francis Cassavetti, “Organization for Economic Cooperation and Development” In The New Palgrave Dictionary of Money and Finance Vol.3 P. Newman, M. Milgate, J. Eatwell eds (London: MacMillan Press, 1992),480. in Palgrave 99

¹⁷Loukas Tsoukalis, The New European Economy Revisited, (Oxford: Oxford University Press, 1997), 95.

¹⁸Tsoukalis, 100.

¹⁹Tsoukalis, 102.

Similarly, the provisions for financial liberalization included under free trade agreements such as the North American Free Trade Agreement (NAFTA) and proposed agreements, such as the World Trade Organization (WTO) and the failed Multilateral Agreement on Investment (MAI), seek to involve states in new constitutional arrangements where policies of financial liberalization are adopted by treaty and the possibility of future re-regulation is minimized by the imposition of significant political and economic costs associated with abrogation of the treaty. The measure of success these initiatives meet with provides a useful indication of the capacity, both political and economic, of international financial interests to influence state policy and structure the international financial system in their interests.

ii) Non state oriented financial institutions and organizations

The Bank for International Settlements was established in Basle in 1930, and is the oldest international organization still operating in international finance. Simmons makes the argument that the BIS was established in pursuit of financial stability, by private financiers and central bankers who, “understood and had a stake in smooth functioning capital and currency markets”. To this end it sought to provide a means of initiating a more cooperative stance on the problem of Germany’s debt. At the time, politicians in creditor powers were under political pressure to take a tough stand on reparations but the BIS provided the means to evade this pressure and pursue an alternative policy without having to deal with domestic political considerations.²⁰ This provides an interesting historical precedent to the claim that international financial institutions are at present

²⁰Beth Simmons, “Why Innovate? Founding the Bank for International Settlements,” World Politics 45 no.3 (1993) 404.

providing a site for international financial actors to pursue their own interests unencumbered by interference from political actors located primarily within states.

The BIS is an institution at the disposal of the banking community and consists of a wholesale money market bank whose depositors are almost all central banks, and a service organization that provides, "initiatives and ideas as well as the professional, organizational and material logistics for central bank cooperation in all areas of common interest."²¹ In its role as a bank for central banks during the 1980s debt crisis, the BIS provided bridging financing to a number of central banks as well as to the IMF. The BIS finances its activities as a service organization from its profits as a bank. The BIS provides a regular meeting place for central bank Governors from the major industrialised countries. It enhances mutual understanding within the international banking community, facilitates international coordination of monetary policy, and organizes regular meetings of central bank experts on matters of interest.

In 1974, the Basle Committee on Banking Supervision was set up by the G10 Governors of the BIS to provide a basis for international cooperation in bank supervision. At the time, the collapse of the Franklin National Bank in New York and the Herstatt Bank in Germany demonstrated that the failure of even a moderately sized bank could have wide reaching international implications. Hayward describes the dilemma facing banks supervisors:

Although banks and banking groups have operated internationally for decades, if not centuries, the laws establishing bank supervisory authorities have of necessity been confined to national frontiers with limited capacity for extra-territorial

²¹A Lamfalussy, "Bank for International Settlements", In The New Palgrave Dictionary of Money and Finance Vol.1 P. Newman, M. Milgate, J. Eatwell eds (London: MacMillan Press, 1992),480. Palgrave, 130.

application...Given that bank regulation necessarily stems from the authority of national legislatures, some means needed to be found to ensure that banks' operations beyond national jurisdictions could be supervised effectively. One approach would have been some form of international convention based on multilateral treaty, but a more effective and quicker way was to proceed by informal understandings.²²

The 1975 adoption of the Basle Concordat marked the beginning of an ongoing effort to coordinate international supervisory standards on a voluntary basis. It appeared possible to accomplish this through the BIS because international banking activity was overwhelmingly concentrated among its members. At that time, the G10 plus Switzerland and Luxembourg accounted for 90% of international banking activity; however, as international banking developed the Concordat has become generally accepted by bank supervisors around the world.²³

The second area of concern addressed by the Basle Committee had to do with the desire to achieve an enforceable international agreement on adequate common capital standards for banks. In 1984 there were growing concerns with high levels of international debt as well as a sense that high levels of financial innovation in quickly expanding international financial markets were producing an increase in off-balance sheet activity which was not adequately captured in traditional leverage instruments. This led the G10 to ask the Basle Committee to recommend a framework for capital adequacy standards. Strange argues that the initiative for this agreement originated in the US Congress in response to political pressure from American banks seeking to limit competition from foreign banks. American banks wished to ensure, through international

²²Peter C. Hayward, "Basle Committee on Banking Supervision," In The New Palgrave Dictionary of Money and Finance Vol2 P. Newman, M. Milgate, J. Eatwell eds (London: MacMillan Press, 1992),480. Palgrave 185.

²³Herring and Litan, 98.

agreement, that foreign banks would be made to observe the same rules on capital adequacy requirements as American banks.²⁴ The slow progress to agreement included a bilateral agreement between the US and Britain in 1987, and in 1988, the Basel Committee finally announced its own Accord on capital adequacy which was subsequently incorporated into the national regulatory systems of each member country.²⁵

Despite this agreement, a number of practical difficulties were encountered in this area. Bankers resisted regulation and devised ways to circumvent the rules. Worldwide standards of capital adequacy were very hard to agree upon and even harder to enforce. By 1996 Strange argues that, in effect, “the BIS had virtually thrown in the towel on capital adequacy rules”, deciding instead to pursue persuasion rather than international regulation in its ongoing effort to ensure sound and sustainable banking practices internationally.²⁶ This represents another example of the shift from policies supporting regulation to those limited to “cooperation” in the international financial system.

At present the BIS is seeking to expand its membership in Asia and Latin America and to expand its expertise into the area of international regulation of insurance. In spite of (or perhaps because of) the increased liberalization of international financial markets and the lack of success of attempts to implement the 1988 Accord, there is still an important role for the BIS in the international financial system. As Strange argues:

(T)he BIS was still needed, as a forum, as a sophisticated central data resource for central banks and others, and increasingly as a means by which fragile banking systems in emerging markets could be brought into the consultative circle. When crises struck - as they certainly would - the hot lines constantly open between regulators linked to the BIS were one way in which the speed of response to markets could be matched -or

²⁴Strange, Mad Money, 160.

²⁵Herring, 108.

²⁶Strange, Mad Money, 161

nearly so - by the speed of political decision making.²⁷

In this way, the BIS has retreated from its attempts to provide stability in the international financial system through regulation and has adapted itself to the apparently irresistible move toward financial liberalization. It has accepted the responsibility of stabilizing international banking systems through education and an appeal to enlightened self interest of individual banks, as well as accepting the responsibility for acting as an effective manager of international banking crises as needed. The BIS is an important facilitator of a deregulated financial system.

In response to the exponential growth in securities in international financial markets, a second important regulatory body for international finance has developed in the form of the International Organization of Securities Commissions (IOSCO). Originally founded as the International American Association of Securities Commissions and Similar Organizations, it became global in 1984 and has become the most important institution involved in the coordination and regulation of the international securities markets.

Coleman and Porter argue that non-state actors play a much more important role in securities than in banking and that informal organizational arrangements between firms participating in international securities markets are much stronger than those in banking.²⁸ Underhill points out the dangers inherent in such an arrangement which, as Strange agrees, has provided the means for private interests to dominate public purpose:

The closed nature of the policy communities and the growing dependence of regulators and supervisors on private market interests has meant that regulatory standards are

²⁷Strange, *Mad Money*, 161.

²⁸William Coleman and Tony Porter, "Regulating International Banking and Securities," In *Political Economy and the Changing Global Order* R. Stubbs and G. Underhill eds (Toronto: McClelland & Stewart, 1994), 199, 200.

increasingly aligned to the preferences of the largest global market players.... There is in fact in the global financial order an ongoing tension between the need for efficient crisis management and preventative regulation and the need for more open consideration of the financial policy options open to states in the global system... [the] the old dilemma concerning a sustainable balance between particularistic interests and wider public concerns.²⁹

The same criticism can be made to a greater or lesser degree about most of the regulatory or coordinating institutions in the international financial system at present.

iii) Financial market oriented organizations

The development of private bond rating firms is linked to innovation and structural changes in international financial markets and specifically to the trend to the “disintermediation” of lending. In disintermediated lending banks coordinate transactions but no longer act as intermediary to the transaction. As the relation between the supplier and the user of funds is direct, in disintermediated lending, the lender can no longer rely on the prudential behaviour of the bank to assess risk and, as a result, the risk to the lender becomes increasingly uncertain. Debt rating agencies have emerged to fill this gap. Moody’s Investors Service and Standard & Poor’s Ratings Group are perhaps the best known of these agencies with the most significant international presence, but similar agencies exist in a broad range of countries such as Britain, France, Japan, Canada, and emerging markets like China, and Thailand.³⁰

This trend is likely to fundamentally alter the role of banks in the international financial system. Sinclair argues that banks were hybrid institutions of collective action located

²⁹Geoffrey Underhill, “Private Markets and Public Responsibility in a Global System: Conflict and Co-operation in Transnational Banking and Securities Regulation,” in *The New World Order in International Finance* ed. G Underhill, (New York: St Martins Press, 1997), 43.

³⁰Timothy Sinclair, “Between state and market,” *Policy Sciences* 27 (1994), 453.

between states and markets. In effect, they acted to control risks for borrowers, lenders, and political authorities alike. With the trend to disintermediated lending, pushed by competitive pressures in the global political economy and the desire of banks to reduce the costs of financial transactions, banks will act less as intermediaries and more as active market participants. Sinclair argues that this will ultimately cause the distinction between banks and brokerage firms to disappear.³¹ This gives greater weight to the ratings of rating agencies and less weight to competitive market processes. The bond rating process has a substantial social component. For example, relationships develop between bond issues managers and rating analysts who meet regularly regardless of whether or not a new bond issue is imminent. Rating is based on a variety of formal as well as informal information and the judgements are highly subjective. Rating agencies are contributing to a new system of governance in an environment where banks are no longer the sources of authority they once were and governments are content to limit their involvement to watching over their capital markets. In this increasingly deinstitutionalised setting, few institutions other than market participants are left with oversight of the market and this increases the structural power of rating agencies. However, Sinclair stresses that since these forms of governance are private and not subject to public accountability they may “reflect and in turn help to constitute a world order in which the demands of investment maximization are increasingly unchallenged. More broadly rating agencies may be in the process of becoming private makers of global public policy.”³²

³¹Sinclair, “Between State and Market”, 450.

³²Timothy Sinclair, “Passing Judgement: Credit rating processes as regulatory mechanisms of governance in the emerging world order,” Review of International Political Economy 1:1 (Spring 1994) 139-145. Sinclair, “Between State and Market”, 462.

iv) Unofficial groups and processes

A number of private groups and processes contribute to the context of international financial markets. For example, The Group of Thirty which started as a think tank in New York in the 1980s has issued a report arguing that self supervision by banks was to be preferred to common banking standards.³³ The Trilateral Commission formed in 1972 by David Rockefeller, a formal, private group, was formed with the intention of aiding groups of invited leaders from around the world in developing a shared understanding of common problems, avoiding communications breakdowns, and developing trust through frank and private discussion. The discussions take place in a national, regional, plenary, and various smaller group meetings. Members tend to be internationally oriented liberals or conservatives and include officials from the IMF, the World Bank, and the OECD. The Trilateral Commission acknowledges its commitment to, “a stable structure of world order which would promote, amongst other goals, the internationalization and expansion of capitalism.”³⁴ Gill argues that the Trilateral Commission is part of a movement at the elite level to consolidate a new form of hegemony which has a different social basis than the welfare state orientation of the Bretton Woods system and that this new “strategic consensus” serves to configure the pattern of privilege in world order structures including international finance.³⁵

Since it was incorporated in 1971, the World Economic Forum (WEF) has provided

³³Strange, Mad Money, 171

³⁴Stephen Gill, American Hegemony and the Trilateral Commission (Cambridge: Cambridge University Press, 1990), 202.

³⁵Stephen Gill and David Law, “Global Hegemony and the Structural Power of Capital,” in Gramsci, Historical Materialism and International Relations S. Gill ed. (Cambridge: Cambridge University Press, 1993), 7.

opportunities for high level discussions among the 1,000 top business leaders, 250 political leaders, 250 academics, and 250 media leaders, who come together to, “shape the global agenda” at their annual meetings in Davos, Switzerland. The WEF credits itself with having contributed to the process of financial services liberalization through, “private meetings among key players which took place on the occasion of our 1996 Industry summit in Chicago and on the occasion of the 1997 Annual Meeting in Davos.” In addition to the annual general meeting, a series of smaller, private meetings called Governors Groups are held at the same time. These meetings are characterized by, “personal, direct, and confidential interaction”. No voting takes place and no public statements are made except by the unanimous request of all participants.³⁶

The WEF provides a forum in which a relatively small group of persons occupying positions of economic leadership around the world can meet, define their common goals and interests, and develop strategies to facilitate working together in order to achieve these goals. Informal processes which take place within forums such as the WEF and the Trilateral Commission play an important role in developing the sense of common interest which serves as the foundation for an emerging society of global finance.

In addition to these developments at the elite level, at the popular level a number of processes have generated support for the liberalized international financial system. Neoliberal discourse has been important in providing a convincing rationale for the “need” to liberalize financial markets in order to realize the efficiencies supposedly derived from free market processes. Neoliberal discourse has also provided a basis for the intuitively

³⁶World Economic forum selected from [Http://www.weforum.org](http://www.weforum.org) in “The World Economic forum: when the rulers of the world,” PGA Bulletin No.0 (Nov.Dec. 1997) available at <http://www.agp.org/agp/en/index.html> ; Internet ; accessed 7 March 2000.

appealing argument that government intervention in the economy is not only inherently inefficient but also too “expensive” for most states to pursue. The argument that the national debt and deficit are too large and that, in the interest of fiscal responsibility, government spending must be slashed, has been made in many states. The fear that national credit ratings will be downgraded by bond rating agencies or that the “automatic, punishing recoil” of financial markets will discipline states which pursue policies that do not meet with the approval of financial market participants, reinforces the belief that the state should not interfere with market processes.

Nevertheless, the steady increase among citizens of developed countries in popular involvement in financial markets, for example through individual investments or stakes in pension funds, adds a compelling reason for supporting liberalized international financial markets for many.³⁷ It is difficult to be critical of an institution when it affords you, as an individual, the opportunity, or at least the possibility of becoming rich. The ongoing strong performance of domestic stock markets and the proliferation of “dot com” millionaires, reinforce the popular perception that market processes generate prosperity. In a Gramscian sense this pro market attitude contributes to the hegemony of an order based on liberalized international finance.

III. Implications

In summary, over the last thirty years, the process of liberalizing international financial markets has posed new and increasingly difficult challenges to efforts to regulate the international financial system. The adoption of floating exchange rates, the establishment and growth of Euromarkets, financial innovation, the growth of disintermediated financial

³⁷Herring and Litan, 17.

transactions, the growth of financial conglomerates, and increased concentration in financial markets have all made the practical aspects of the task of providing regulation to the international financial system more difficult than ever before. This occurred at a time when the political will to regulate the international financial system also declined.

Although states, and particularly the US, supported policies of financial deregulation, it was not their intention to create an alternative and competing power base in the international financial system capable of constraining the policy autonomy of the sovereign state. As Strange argues, although the US used its structural power to lock foreign economies into an open world economy with the intention of reaping benefits for American business, its policymakers did not fully intend that this would give markets enhanced power over governments including their own.³⁸ Similarly, opening British banking to foreign banks was the price of returning London to prominence as an international financial centre but British policy makers did not anticipate that this action would mean that traditional British methods of regulation in the financial sector would no longer be effective, or that the British domestic regulatory system would be forced to change as a result of this deregulation.³⁹

As a result of the liberalization and growth of international financial markets, an international financial system emerged which was dependent on large market actors. The system as a whole could not afford for these large financial actors to fail because such a failure could bring about a global financial collapse. As a result, new forms of informal cooperation began to develop in international finance. For example, in response to the

³⁸Susan Strange, The Retreat of the State (Cambridge: Cambridge University press, 1996), 29

³⁹Susan Strange, Casino Capitalism, 131

1980s debt crisis, the IMF worked closely with private financial interests in efforts to avoid a global financial collapse. Arguably this involvement changed the basis of their relationship and resulted in increased linkages between state interests and international financial interests. State oriented regulatory institutions provided an important forum for discussion and coordination in the international financial community at the same time as state control and regulation in international finance was weakened.

Further, from Bretton Woods on, there has been difficulty in achieving international agreement between states as to the appropriate nature and scope of regulation in the international financial system. Emphasizing the technical aspects of financial policy has become a convenient means to depoliticise international debate, as well as effectively remove financial issues from the field of domestic political debate. As financial issues increasingly became defined as technical, experts were required to deal with them. Non-state regulatory institutions and agencies such as the BIS, IOSCO, and the bond rating agencies were specialists in their fields and, as such, were perceived as financial experts. In general, states became increasingly willing to rely on such expert institutions to provide regulation in international finance and this provided a further justification for state withdrawal from the role of financial regulator.

As states withdrew from the role of regulator and the destructive potential of unconstrained international financial market processes became a concern, a countermovement located within international finance began to take shape. Although there was been a move away from formal, state oriented regulation and rules governing international finance, non-state institutions and organizations remained concerned with

maintaining stability in the international financial system if for no other reason than enlightened self interest. They provide forums for discussion and coordination, and crisis management is provided as required on an ad hoc basis. To facilitate the cooperation needed to respond effectively to crises, a number of regulatory institutions provide the opportunity for financial actors to interact and develop relationships based on their shared interest in, and understanding of, the international financial system. As a result, the transnational identity of financial interests has been strengthened. Arguably, a new countermovement is emerging out of this process, a countermovement that has, as its origin, the response to the need to provide stability in international financial markets.

Finally, informal groups and processes provide broadly based support for the goal of maintaining the stability, sustainability, and profitability of international financial markets. At the elite level they seek to develop an international understanding in support of liberalized international finance. At the popular level, neoliberal discourse and increased participation in financial markets provide a means to generate popular support for liberalized international finance.

In brief, the context of international finance is characterised by decreased state involvement in determining rules and regulations governing its priorities. Increased power is located in financial market processes but a countermovement is taking shape in which private regulatory institutions and informal groups and processes located in the “society” of international finance seek to provide an effective means to constrain market processes and coordinate crisis management in order to facilitate the long term survival of the system as a whole.

It appears that a new countermovement is developing within global finance. This countermovement seeks to fine tune the market-society relationship and provide stability and crisis management to international financial markets, not through international regulation between states, but through the informal, private, market-oriented mechanisms described above which seek to place constraints on free market processes and coordinate the actions of actors in international finance. This has a number of serious implications for human rights and social justice. By divorcing the stabilization and regulation of the international financial system from the state, democratic accountability for these processes is reduced. As Cerny suggests, if governments can no longer control the globalization and concentration of international finance it will lead to a “democratic deficit”. He argues that when there is no way to translate popular interests into effective government action regulating or shaping the international financial system, “the interests of the people” do not seem to exist.⁴⁰

In whose interests will stability be achieved in liberalized financial markets reregulated according to interests located in the society of international finance? In this system stability will be largely maintained by private regulatory processes supplemented by crisis management. As Rodrik points out, market discipline empowers foreign as well as domestic financial markets over other constituencies in society.⁴¹ At whose cost will stability be achieved in these financial markets? Cerny argues that liberalized international financial markets will crowd out long term investment in the real economy, undermine the

⁴⁰Philip Cerny, “The dynamics of financial globalization”, 337.

⁴¹Rodrik, 22.

Keynesian welfare state, and impose the norms of the competition state.⁴² Therefore, stability will likely be achieved in the interest of financial market actors, both international and domestic, and at a cost to non-financial actors such as those whose interests lie primarily in a productive real economy and a functioning welfare state.

Will states seek to reverse this trend by taking back the role of regulator in the international financial system? Bienefeld argues that states can and that states must do this, not only to ensure financial stability but also to protect the interests of their citizens and ensure social and political stability.⁴³ But there are a number of problems with this approach. Multilateral regulation remains difficult due to the problem of achieving an international basis for agreement. Unilateral action is likely to be prohibitively costly for any single state of acting alone in implementing unilateral financial regulation if, in the rest of the world, financial capital continues to be able to move relatively freely. Even if substantial political support for national financial regulation exists within a given state; domestic financial interests linked to international financial interests can present an effective opposition to these policies making it unlikely that they would be adopted or maintained. While there are growing signs of a willingness to re-politicise economic issues, the political support required for a single state to unilaterally adopt financial regulation without the support of the international financial system is unlikely to materialize.⁴⁴ Strange argues that a return to national responsibility for national financial

⁴²Cerny "The dynamics of financial globalization", 337 ; Philip Cerny "The Infrastructure of the Infrastructure?" in Transcending the State-Global Divide R Palan and B. Gills eds, (Boulder: Lynne Rienner Publishers, 1994), 246.

⁴³Manfred Bienefeld, "Is a Strong National Economy".

⁴⁴Joseph Kahn and David Sanger, "Impasse on Trade Delivers a Stinging Blow to Clinton," The New York Times December 5, 1999, 1.

systems would be conceivable, “but only after an economic or financial catastrophe of terrifying proportions”.⁴⁵

Under this emerging system, is power to make political decisions increasingly being relocated in international finance? Cerny asks why, despite national differences, liberalization is taking place “more or less simultaneously” in all states, and suggests that the answer lies in the role of markets and private transnational economic forces in the process of financial liberalization and globalization. Strange argues that the authority to make political decisions is not limited to states. She compares the emerging international system to medieval Europe in the sense that authority is increasingly dispersed, shared over society and economy, and no longer necessarily limited to the governments of territorially defined states.⁴⁶ This suggests a relative reduction in the importance of democratic processes of accountability located in the conventional state. This shift is underlined by Cerny who argues that we are seeing, “the privatization and marketization of the political-economic structure” of the state and that “financial markets, not states, represent the closest thing to a new hegemony in the contemporary international system.”⁴⁷

Castells’ concept of network attempts to capture the complexity of these relationships. He theorizes that, “there is an integrated global capital network whose movements and variable logic ultimately determine economies and influence societies”, and he adds that there exists a “meta- network of financial flows where all capital is equalized in the

⁴⁵Strange, Casino, 188.

⁴⁶Strange, Retreat, 37. Susan Strange, “Territory, State, Authority and Economy,” In the New Realism R. Cox ed (New York: St Martins Press, 1997), 16.

⁴⁷Cerny, “The dynamics of financial globalization”, 339.

commodified democracy of profit making....winners and losers change by year, month, day, second”⁴⁸. But this begs the question, what if capital is not necessarily equalized? What if some forms of capital are “more equal” than others? What if winners and losers do not change but consistently stay the same? For Castells neglects the concept of structural power; yet structural power, the ability to set the rules of the game, has been and continues to be of great importance in international financial markets.

In a Polanyian sense, Cerny asks if we have reached the end of the Great Transformation at the national level or, whether the politics of financial market regulation might shift to the transnational level and presumably provide a basis for an international double movement located outside of international finance.⁴⁹ Similarly, Helleiner challenges the idea that the globalization of financial markets is irreversible and cites the Tobin tax and the regulatory efforts of the BIS as examples of Polanyian counter movements seeking to restore a degree of social control over financial markets. Helleiner argues that the, “Polanyian aspiration of bringing global finance under *some form* of social control still clearly resonates” (my italics).⁵⁰ Yet, simply because international financial markets were originally constructed by states, it does not necessarily follow that states can re-regulate these markets. Helleiner is right to emphasize the potential importance of states in determining the shape of international financial markets but so far there is little evidence that political will has shifted to the point where a Polanyian counter movement would develop among states at the international level. Like Strange, Helleiner goes on to

⁴⁸Manuel Castells, The Information Age Vol.1 (Oxford: Blackwell Publishers, 1996), 474,472.

⁴⁹Cerny, “The Infrastructure”, 247.

⁵⁰Eric Helleiner “Great Transformations,” Studies in Political Economy 48, (Autumn 1995), 163.

argue that a major global financial crisis would galvanize states into action and provide this will.⁵¹

This argument suggests that in a manner similar to the economic crisis of the interwar, a new global financial crisis would force states into placing constraints on international financial market processes. The problem with this argument is, what if there is no global financial crisis to shock states into action? What if the double movement Polanyi described, in which society protects itself from the excesses and instability of free financial market processes, does develop at the international level but the society that provides the basis for this counter movement is not based in national states or even global society as a whole but instead is the society of international and global finance? What if non-state, private financial actors could provide the basis for the counter movement by developing new ways of cooperating to moderate market processes? In this variation of the Polanyian theory, in the absence of a global state, protection from the instability and excesses of international financial markets would have its origins in the “society” which is at present emerging in international finance, in other words the society of global finance. In this way it might be possible to stabilize and maintain the international financial system in the short term.

Such a scenario implies, however, that such a potentially stable arrangement would be based on a self-regulating international financial system. This system would, therefore, lack any mechanism for providing accountability to non-financial market actors. Under most circumstances, national societies and their citizens would be largely excluded from the equation. In this system, the double movement of society protecting itself from

⁵¹Eric Helleiner, “Post-globalization,” 206.

market forces would not have the result of protecting human, social, or political rights or developing stable democratic societies, but rather, as Rodrik puts it, it would succeed only in “making the world safe for free capital flows.”⁵²

If actors who are accountable to nothing but market processes are able to set the terms for international financial markets, it is unlikely that the constraints placed on financial markets will incorporate any more than the bare minimum of concessions to society that is required to maintain a level of civil unrest that does not interfere with market processes. This has serious, negative implications for social justice and also for the long term economic and political stability of the international system.

⁵²Rodrik, 16.

Chapter 4

Countermovements Outside the Financial System

This chapter will examine how the context of international finance is shaped by countermovements located outside the “society” of international finance, in local, national, and global society. The countermovements discussed in Chapter 3 had, as their primary goal, the development of a supportive context which would constrain financial market processes in order to provide stability and, in this way, protect and further the material interests of financial market participants. In contrast to this, the goals, as well as the basis of support of countermovements located outside international financial markets, are more complex. Frequently, they are part of a much larger pattern of opposition which targets not only financial markets, but a wide spectrum of issues ranging from an immediate concern with the suffering associated with poverty and economic exploitation, to an ideologically based condemnation of the capitalist system as a whole.

Barrington Moore examined the role the perception of injustice played in providing a social basis for obedience as well as revolt. He argued that “there are indications of a widespread feeling that people, even the most humble members of society, ought to have enough resources or facilities to do their job in the social order, and that there is something morally wrong or even outrageous when these resources are unavailable.”¹

¹Barrington Moore Jr., Injustice The Social Bases of Obedience and Revolt, (White Plains, NY: M. E. Sharpe, 1978), 47.

Moore argues that the sense of injustice linked to this outrage is an important part of the general processes that occur at the level of culture, social structure and individual personality which cause groups of people to cease to take their social surroundings for granted and come to reject or actively oppose them.²

Inglehart argued that, in Western publics, there has been a shift away from an “overwhelming emphasis on material well being and physical security” towards a greater emphasis on quality of life issues. At the same time, he documented a shift in the distribution of political skills and an increased interest and understanding of political issues at both the national and international level. For Inglehart, these changes allowed “mass publics” to play an increasingly active role in “elite challenging” activities and argued that, in consequence, potential counter elites were distributed more widely among the public than ever before.³ Similarly Heunks found that in Western countries, between 1981 and 1990, political interest, as well as participation in both conventional and unconventional political activity, increased.⁴

A sense of injustice, an emphasis on the importance of quality of life, and an increasingly politicized and politically active public has provided a societal and individual basis for a number of countermovements that oppose the dominant position of international financial interests and seek to constrain the processes of liberalized financial

²Moore, 81.

³Ronald Inglehart, The Silent Revolution, (Princeton: Princeton University Press, 1977), 3.

⁴Felix Heunks, “Varieties of Political Participation, “ in Political Value Change in Western Democracies, ed. L. Halman and N. Nevitte, 15-32, (Tilburg: Tilburg University Press, 1996) Heunks defines conventional activity as level of interest, voting, participating in political discussion, and party membership. Unconventional activity is defined as signing a petition or participating in a boycott, demonstration or occupation

markets. This chapter will focus on three examples of expressions of popular opposition to the outcomes of liberalized global financial markets: the movement in support of the Tobin tax on transactions in international financial markets; the Jubilee 2000 initiative to forgive the debt of highly indebted poorer countries (HIPC); and public demonstrations of popular opposition to the economic forces of globalization such as took place at the World Trade Organization (WTO) meetings in Seattle in 1999.

I. Tobin tax

Of these three examples, the Tobin tax is the most technical and the most morally neutral. It is based on a desire to stabilize and support financial markets and remedy their tendency to excessive and destabilizing volatility. James Tobin first put forward his proposal for a levy on international currency transactions in 1972. His stated goal was to “preserve some possibilities of autonomy in national or continental monetary policies and to defend them against the growing internationalization of money markets.”⁵ The proposal initially received little attention. As opposition to the trend to deregulate international financial markets developed, however, the idea tended to resurface, especially during currency crises.

In the 1990s there was renewed interest in the idea. This was due in part to a growing volume of trading in foreign exchange markets, which had increased from \$18 billion daily in the early ‘70s to \$1.3 trillion in 1995 and to \$1.8 trillion in 1999.⁶ This was also due,

⁵James Tobin, “The New Economics One Decade Older,” The Eliot Janeway Lecture on Historical Economics in Honour of Joseph Schumpeter, 1972, (Princeton: Princeton University Press, 1974) quoted in Inge Kaul, Isabelle Grunberg, and Mahbub ul Haq, “Overview” in The Tobin Tax ed. Haq, Kaul, Grunberg (New York: Oxford University Press, 1996), 1

⁶Inge Kaul, Isabelle Grunberg, and Mahbub ul Haq, “Overview” in The Tobin Tax ed. Haq, Kaul, Grunberg (New York: Oxford University Press, 1996), 3 ; Heinz Stecher,

not only to the magnitude, but to the short term character of these transactions. In 1995, 80% of foreign exchange transactions had a round trip of 7 days or less.⁷ In addition, the renewed interest in the Tobin tax was the result of a broadening of the base of those interested in international financial issues to include those interested in the substantial revenue generating potential of the Tobin tax. In the 1990s, therefore, renewed interest in the Tobin tax was generated by policy-makers and experts concerned with the smooth functioning of financial markets and by those who were concerned with public financing of development and international co-operation on problems such as the environment, poverty, peace, and security. Finally, by the 1990s, the growing size of foreign exchange markets dwarfed the capacity of central banks to intervene effectively in financial market crises. Kaul, Grunberg and Haq note that by 1995 “the central banks revenues barely amounted to one day of exchange trading”.⁸ The Tobin tax was of increased interest to states because it provided a potential means for states to constrain financial markets and reassert their sovereignty and freedom to manoeuvre in international financial markets.

Stecher describes the Tobin tax as essentially “a very small levy of 0.1- .5% on all currency deals. The greater the frequency of transactions, the higher the effective tax rate”.⁹ In theory this tax would reduce the attraction of speculative, short term transactions and contribute to greater stability in foreign exchange markets. Advocates argue that not only could the Tobin tax reduce short-term, speculative currency and capital flows, but it could also be used to restore the taxation capacity of nation states

“Time for a Tobin Tax?” (Oxfam GB: Oxfam Discussion Paper, 1999,) 2 available from <http://attac.org/fra/to11/doc/oxfam.htm> ; Internet ; accessed 5 March 2000.

⁷Kaul, Grunberg, and Haq 1996, 3

⁸Kaul, Grunberg, and Haq, 4.

⁹Stecher, 2.

affected by the internationalization of markets and enhance national policy autonomy.¹⁰

While there is an ongoing debate concerning the merits, as well as the feasibility of implementing the Tobin tax, this is a complex discussion beyond the scope of this chapter.

What is the pattern of support behind the countermovement supporting the Tobin tax?

Understanding this dynamic is of direct relevance to understanding the context of international finance and the development of countermovements seeking to constrain international financial market processes.

Stecher argues that although the idea of a Tobin tax “is opposed or ignored by the leading policy makers and by the international financial establishment”, in spite of this, support is building in a number of quarters.¹¹ The proposal was informally discussed at the G7 meeting in Halifax in 1995. More recently Australia and France have spoken out in favour of a currency transaction tax. Members of the Asia Pacific Economic Co-operation have discussed the proposal. The Prime Minister of Malaysia has publicly condemned currency trading as unproductive and immoral. In Switzerland, Germany, France, and the European Parliament motions on the Tobin tax have been discussed. In March 1999, the Canadian parliament approved a private members motion saying that the Canadian government “should show leadership in enacting a tax on financial transactions in concert with the international community”.¹²

At the state level, support for the tax is based on its potential to reduce currency crises and restore a measure of state autonomy with respect to financial market processes. In addition, the revenue producing aspects of the Tobin tax are looked upon favourably by

¹⁰Stecher, 6.

¹¹Stecher, 22.

¹²Stecher, 19.

those groups within developing as well as industrialized countries interested in the tax as a source of revenue for development and other global projects. Similarly United Nations organizations have been interested in the potential of the Tobin tax and other possible financial transaction taxes for this reason.¹³

Stecher argues that the “issue of a Tobin tax and other international policies needed to properly regulate the financial system are ‘naturals’ for global networks and world-wide federations such as Oxfam International”.¹⁴ The concept of a currency transaction tax is easily understood by the public: the recent experience of many developed countries with currency instability and the effects of speculation helps citizens to realize that they are interested parties and aids in their practical understanding of the issues at stake in financial market processes. The highly charged issues of third world debt crisis and the debt relief campaigns, such as Jubilee 2000, also provide a springboard for developing popular interest and concern about international financial market processes.

The ability to connect the complex and technical aspects of international financial market processes to practical consequences affecting the quality of daily life is key to the campaign for the Tobin tax. Organizations and initiatives located around the world are working to build a groundswell of support for policies aimed at constraining financial markets. In Canada, the Halifax Initiative was formed in 1994 by Canadian non-governmental organizations (NGO) who wished to ensure that demands for reform of the international financial system were “high on the agenda” of the G7's 1995 summit. The Halifax Initiative is a “coalition of environment, development, social justice and faith

¹³Stecher, 19,21.

¹⁴Stecher, 22.

groups deeply concerned about the policies and practices of the international financial institutions and committed to their fundamental reform". Its goals are "ending the unsustainable policies and practices of international financial institutions" and "contributing to the articulation of an alternative vision of environmentally and socially sustainable development". Its work is currently focussed on the issues of multilateral debt relief and controlling international currency speculation.¹⁵

In the United States the International Innovative Revenue Project (IIRP), a group which researches proposals for innovative sources of international public revenue, is linked to the Tobin Tax Initiative (TTI), a project which works in the United States to raise awareness of the Tobin tax proposal among "grassroots opinion leaders" as well as networks with other groups around the world which support the Tobin tax. The Tobin Tax Initiative was established in 1997. Both it and the IIRP are projects of the nonprofit Center for Environmental Economic Development.¹⁶

In France, the Association pour une taxation sur les transactions financières pour l'aide aux citoyens (Association for a Taxation of Financial Transactions in Assistance to the Citizens) (ATTAC) was founded in 1998 by a number of editorial boards, trade unions, and associations.¹⁷ It describes itself as a group linking citizens, associations, trade unions, and newspapers which seeks to influence public opinion and elected representatives to make known the economic and social consequences produced by financial speculation and to register its concern. It advocates for the Tobin tax and other

¹⁵ "Halifax Initiative," (T T Planetary Ring Web site) available from [Http://attac.org/ttring/ttringhalifax.htm](http://attac.org/ttring/ttringhalifax.htm) ; Internet ; accessed March 1 2000.

¹⁶ "Tobin Tax Initiative - CEED," (TT Planetary Ring website) available from <http://attac.org/ttring/ttringceed.htm> ; Internet ; accessed March 1 2000.

¹⁷ Stecher, 20.

related measures as a means of achieving this. ATTAC seeks to enlarge the debate around financial markets and seeks to bring this about by “producing information, by organising national, European, and international meetings” and by networking internationally.¹⁸

ATTACs have emerged in Switzerland, Canada, and Brazil.¹⁹

Support for the Tobin tax is drawn from groups operating at the national as well as the international level in the developed as well as the third world. They are supported by groups organized around labour, the environment, sustainable development, church, humanitarian, and global policy concerns. In 1995 the “Copenhagen Alternative Declaration of the NGO forum of the United Nations World Summit for Social Development”, a declaration which rejected the neoliberal economic model of economic growth, unregulated markets, and free trade was signed by more than 620 civil society organizations.²⁰ Nine weeks after the conference ended this number had grown to close to 10,000 organizations from “practically every country around the world”.²¹

A counter movement is taking shape around the Tobin tax. It is co-ordinated at the grassroots level, based on enlightened self interest in developed as well as developing countries, and facilitated and nurtured by sympathetic NGOs within both national and global societies which take advantage of modern technologies to communicate and

¹⁸“What ATTAC Requires,” (Association for taxation of financial transactions to aid citizens website) available from <http://attac.org/ttring/ttattac.html> ; Internet ; accessed March 1 2000.

¹⁹Stecher, 20.

²⁰“The Copenhagen Alternative Declaration,” (Copenhagen: NGO Forum of the United Nations World Summit for Social Development, 1995) available from <Http://iisdliisdca/pcdf/1995/cpendecl.htm> ; Internet ; accessed March 14 2000.

²¹“After the Social Summit: Implementing the Program of action,” (Geneva: United Nations Research Institute for Social Development, 1995) available at <Http://www.unrisd.org/engindex/publ/list/conf/imp1/imp1-05.htm> ; Internet ; accessed March 14 2000.

coordinate activities and develop goals at a global level in a way that would have been unimaginable before the advent of popular access to these tools. The project developing around the Tobin tax is best seen as less of an attempt to actually implement the Tobin tax as such, and more as an effort to construct a popular, global foundation, a counterhegemony, that will serve as a basis of future action. As Stecher writes "Even if a Tobin-type proposal does not prosper in the foreseeable future, advocacy can bring benefits in terms of public and decision-maker awareness of international financial issues and the need for internationally co-ordinated policy responses. The idea of global taxation and regulation certainly has a future. Even if watered down by the realities of power politics, it would be a great step forward, not least because of what it would mean about advances in intergovernmental co-operation and the concept of global citizenship. Again, even if there is little progress possible in the short term, there are public awareness benefits in raising such an idea, whose time may eventually come."²²

II. Jubilee 2000

In 1990 the All African Council of Churches called for a year of Jubilee to cancel all of Africa's debts. In 1996, this idea was taken up by Jubilee 2000 and a campaign was launched in the United Kingdom (UK) by three major Christian and aid agencies in Britain and by the World Development Movement, a UK organization which campaigns for "justice for the world's poorest people".²³ The Jubilee 2000 campaign is "a worldwide movement to cancel the crushing international debt of impoverished countries by the new

²²Stecher, 22.

²³"Milestones in the Campaign," (Jubilee 2000 UK Web site) available at <http://www.jubilee2000uk.org.main.htm> ; Internet ; accessed 7 March 2000 ; "World development movement," (World development movement Web site) available at <Http://www.wdm.org.uk/> ; Internet; accessed at March 14 2000.

millennium”.²⁴ It is frequently linked to the campaign supporting the Tobin tax, in part because both movements involve increasing the awareness of how financial market processes can negatively affect daily life, and in part because the international revenue generating potential of the Tobin tax has practical applications in terms of paying off international debt.

The debate surrounding the Jubilee 2000 movement, however, is more highly emotionally and morally charged than the debate surrounding the Tobin tax. It is based on a belief in the fundamental injustice of the human suffering caused by the debt crisis in the Third World. This sense of injustice is, in many respects, akin to that described by Moore. The debt crisis, as well as efforts to help countries escape the debt trap are not new. Before Jubilee 2000, these efforts met with very limited success. Jubilee 2000 has changed the terms of the debate by invoking religious and moral standards. “Drawing on Old Testament ideas, it called for a once and for all loan write-off to coincide with the new millennium. The proposal caught the public imagination and turned the discussion on debt relief from a purely technical discussion among global bureaucrats into a moral argument about justice between rich and poor.”²⁵

The role and influence of organized religion in this movement is impressive. The Pope has entered the debate calling for a substantial reduction or cancellation of “the international debt which seriously threatens the future of many nations”.²⁶ Organized

²⁴“Church World Service endorses Jubilee 2000” (Church World Service Web site) available at <http://www.churchworldservice.org/cwsj2000.htm> ; Internet; accessed March 6 2000.

²⁵Charlotte Denny and Larry Elliot, “Spark that lit global revolt against poverty,” Guardian Weekly, 6-12 January 2000, 7.

²⁶“Will the IMF take advice from the Pope?” (Jubilee 2000 UK Web site) available at [Http://www.jubilee2000uk.org/news/popo0412.html](http://www.jubilee2000uk.org/news/popo0412.html) ; Internet ; accessed March 6

religious groups from around the world are involved in the Jubilee 2000 Campaign. In Canada, the Canadian Ecumenical Jubilee Initiative is funded by member churches, interchurch coalitions, the Millennium Bureau of Canada, and the Canadian International Development Agency. This group emphasizes the need to bring local and global forces together to “sound the strongest call for social justice that has ever been heard”. In their information they equate debt and structural adjustment policies in the third world with injustice and “bondage”.²⁷ Similarly, the American Church World Service states “Every child in Africa is born with a financial burden which a lifetime’s work cannot repay. The debt is a new form of slavery as vicious as the slave trade”.²⁸ This theme, that Jubilee 2000 provides a modern means of fighting slavery and injustice, is taken up even more strongly by Jubilee 2000 in the United Kingdom which urges the public to “follow in the footsteps of the slave trade abolitionists” by pressuring decision-makers in creditor and debtor governments into cancelling debts.²⁹

While the theme of injustice, strengthened by powerful associations with slavery and the human suffering associated with debt repayment restructuring, is an important part of the Jubilee 2000 movement, information posted on a number of the Jubilee 2000 Internet sites is designed to appeal to the enlightened self interest of the public in a number of ways. In several Jubilee 2000 sites concern, with environmental preservation and 2000.

²⁷“What is the Canadian Ecumenical Jubilee Initiative?” (Canadian Ecumenical Jubilee Web site) available at [Http://www.web.net/~jubilee/english/description.htm#up](http://www.web.net/~jubilee/english/description.htm#up) ; Internet ; March 6 2000.

²⁸“Church World Service endorses Jubilee 2000,” (Church World Service Web site) available at [Http://www.churchworldservice.org/j2000actiongram.htm](http://www.churchworldservice.org/j2000actiongram.htm) ; Internet ; accessed on March 6 2000.

²⁹Jubilee 2000 UK Web site available at [Http://www.jubilee2000uk.org/main.html](http://www.jubilee2000uk.org/main.html) ; Internet ; accessed on March 7 2000.

sustainable development, is linked with the issue of debt forgiveness. The Church World Service site makes the argument that debt forgiveness will protect American jobs as well as lead to an increase in global security.³⁰ Jubilee 2000 is actively supported by groups in Africa, Asia, Europe, Latin America, and North America. For many of these groups and organizations, in particular those originating in Latin America and Africa, the Jubilee 2000 movement provides a useful basis from which to challenge the policies of their own governments as well as the IMF. Jubilee 2000 clearly asserts that "debt relief must not be conditional upon controversial structural adjustment measures that in many cases have only made the poor poorer".³¹

The Jubilee 2000 movement seeks to accomplish its goals through a combination of consciousness-raising, education, networking, activism, demonstration, and lobbying. These activities are intended to take place at the local, national, and global levels, as well as at the level of the beliefs and values within the individual. Jubilee 2000 seeks to nurture a global, groundswell of support for debt forgiveness. For example, the Jubilee 2000 petition has as its goal 22 million signatures collected from around the world.³²

The Jubilee 2000 movement has met with a measure of success. The Cologne Initiative, set up at the G7 Summit in June of 1999, promised \$100 billion in debt cancellation. This process, however, has encountered delays and difficulties and

³⁰"Benefits of debt relief," (Church World Service Web site) available at [Http://www.churchworldservice.org/j2000actiongram.htm](http://www.churchworldservice.org/j2000actiongram.htm) ; Internet ; accessed on March 6 2000.

³¹"Who's dropped What?" (Jubilee 2000 Web site, 25 feb. 2000) available at [Http://www.jubilee2000uk.org/report/dropped.html](http://www.jubilee2000uk.org/report/dropped.html) ; Internet ; accessed on March 6 2000.

³²"Ongoing Actions," (Jubilee 2000 UK Web site) available at [Http://www.jubilee2000uk.org/main.htm](http://www.jubilee2000uk.org/main.htm) ; Internet ; accessed on March 6 2000.

represents less than 1/3 of the total \$354 billion debt which is in urgent need of cancellation according to Jubilee 2000 estimates.³³ In addition to the Cologne Initiative, in 1999 the United States and the United Kingdom announced plans to cancel, on a bilateral basis, 100% of the debt owed to them by the world's poorest countries. Canada has made a similar commitment and, in December 1999, actually wrote off 100% of the debt owed to Canada by Bangladesh.³⁴ This increases pressure on other G7 countries to follow suit. In addition, popular opinion continues to exert pressure in favour of debt relief. For example, following "extensive publicity" at the San Remo music event at the end of February 2000, Jubilee 2000 reports that the Italian government is reviewing its position on debt forgiveness.³⁵

This countermovement is built on the participation of organized religion as well as the secular conviction that injustice provides an adequate and appropriate basis on which to reject certain outcomes of international financial market processes. The success of the Jubilee 2000 movement, although limited, is of importance because it marks a condemnation, or at the least a significant criticism, of the welfare maximizing claims of financial market processes. In Jubilee 2000 widespread, popular revulsion with the outcomes of financial market processes has led to a movement to reject these outcomes and a determination to provide remedies that are based in political, social, and moral processes, not market processes. The Jubilee 2000 movement may mark the beginning of a new consensus of popular disillusionment with free market processes associated with

³³"Who's dropped what," (Jubilee 2000 UK Web site) available at <http://www.jubilee2000uk.org/reports/dropped.html> ; Internet ; accessed on March 6 2000.

³⁴Ibid. <http://www.jubilee2000uk.org/reports/dropped.htm>

³⁵Ibid. <http://www.jubilee2000uk.org/reports/dropped.htm>

international financial markets and the third world debt crisis. This movement could potentially be an important factor in generating the support necessary to re-regulate international financial market processes.

The role of organized religion in this countermovement is particularly striking. Organized religion, as a part of the social fabric, is an important part of the supportive context of market relations. It can, however, become the basis for a countermovement when market processes generate outcomes which are intolerable to this part of society. This has occurred with the Jubilee 2000 movement. The debt crisis produced “intolerable suffering” and The African Council of Churches was able to convey this and make it comprehensible in moral terms to other religious groups. Their appeal, based on humanitarian concerns, overcame arguments of economic “efficiency” and “long term benefit” and ultimately produced Jubilee 2000, a potentially effective challenge to the logic of international financial market processes.

By evoking the powerful image of human suffering and injustice, and presenting it through development and especially through religious organizations, Jubilee 2000 was able to overcome the public’s reluctance to form opinions on the apparently complex and technical issues involved in the debt crisis and international finance. In many cases Jubilee 2000 has been able to replace this hesitancy and confusion with a clearly defined desire to do the “right” thing, to help reduce suffering and resist oppression and injustice around the world. This is proving to be a powerful basis on which to build a countermovement.

III. Public Demonstrations

The Public demonstrations against the World Trade Organization (WTO) which took

place in December 1999 in Seattle, demonstrate the potential for social movements and non-governmental organizations, acting at the local, national, and global level to provide a basis for countermovements seeking to place constraints on financial market processes. Gill writes of the possibility of developing “forums that would allow for democratic oversight of the range of international organizations and indeed the G7 process”.³⁶ He suggests this could involve elements of global civil society such as “grass-roots organizations, worker representatives, environmental and women’s groups and indigenous peoples as well as elements drawn from mainstream politics” and suggests that these elements could be brought together by a recognition of their common interest in protecting the biosphere and achieving a stable, sustainable global economy. He goes on to argue that:

All of this would presuppose the mobilization of a collective and highly differentiated political will at local, global, national, regional, and international spheres of political life. For such a mobilization to succeed would require not only ideas and networks but also institutional and material capabilities, access to resources, and the capacity to demonstrate in practical ways the ability to meet the broad needs of the people. Such power... is needed to countervail and to democratize the power of capital on a world scale and to challenge the discourses and practices that justify and serve to sustain such dominance....This would not produce a single “ethical state”, or a necessarily “good” society, but it would provide minimum criteria for new models of global governance, and for new principles and processes of political accountability.³⁷

There does appear to be something along these lines developing in global society. While it does not yet take the shape of new forms of political accountability, it certainly does demonstrate new opportunities for the mobilization of political will at the local, national, international, and global levels in an ongoing effort to resist economic globalization. For example, the Peoples’ Global Action against “Free” Trade and the

³⁶Gill, “Global Panopticon”, 41.

³⁷Gill, “Global Panopticon”, 41,42.

World Trade Organisation (PGA) was established in August 1997. This organization describes itself as “an alliance of struggle and mutual support”, a “global instrument for communication and co-ordination for all those fighting against the destruction of humanity and the planet by the global market”. Its objectives are to inspire the greatest number of persons and organizations to act against “free” trade through non-violent civil disobedience and “people oriented constructive actions”, offering an instrument for communication and support, and giving an international presence to the struggles against free trade.³⁸

In February 1998, 600 representatives from peoples’ movements on all continents met in Geneva to launch the PGA. The PGA was not intended to have a membership or to represent any organization or person. The PGA was intended to coordinate resistance and facilitate communication through global conferences, regional meetings, and information tools. In 1998, the PGA campaigned against the Multilateral Agreement on Investment (MAI) and the World Economic Forum meeting at Davos. Since then the PGA has worked to mobilise support for its position through education and has conducted a series of lectures and workshops at a grassroots level throughout Europe. In 1999, the PGA provided support and coordination to a number of protests against the Ministerial Conference of the WTO in Seattle.³⁹

On June 18, 1999, a group called “Carnival against Capitalism” staged synchronized demonstrations in Cologne, New York, and London to mark the meeting of the leaders of the Group of Eight industrialised nations in Cologne. The protest specifically aimed at the

³⁸Peoples Global Action Web site available at [Http://www.agp.org/agp/en/index.html](http://www.agp.org/agp/en/index.html) ; Internet ; accessed on March 7 2000.

³⁹Ibid. [Http://www.agp.org/agp/en/index.html](http://www.agp.org/agp/en/index.html)

City, the financial centre in London, was the most effective. It consisted of about 4,000 protestors and caused the London International Financial Futures and Options Exchange to abandon after hours trading and evacuate 400 of its staff members.⁴⁰ For the June 18 "International Day of Protest, Action, and Carnival in Financial Centres around the World", events were organized by a diverse range of activists including environmental, union, unemployed, indigenous peoples and peasant groups in 41 countries around the world.⁴¹

Similarly the protests against the WTO in Seattle, which took place several months later were highly organized with support coming from a wide range of sympathetic sources. A number of activists saw the Seattle gathering as "the ultimate chance to stem a tide of international corporate greed that is destroying the environment, sending developing countries deeper into poverty and generally running amok".⁴² A tremendous amount of energy was focussed on the demonstrations in Seattle. The planned demonstrations were well publicized.

Before the WTO meeting the Seattle City Council and King City Council had voted unanimously to make Seattle an "MAI-Free Zone".⁴³ Direct Action Network against Globalization organized a "Festival of Resistance". A "Shut down the WTO Caravan" consisting of "activists, farmers, fisherfolk, peasants, and labour organizers from around the world" crossed the United States spreading the anti-WTO message and arrived in

⁴⁰"Seattle - Mike Dolan is mobilising against globalising," (Snohomish County Reform Party Web site) available at [Www.snocoreform.org/wto_no.html](http://www.snocoreform.org/wto_no.html) ; Internet ; accessed on March 7 2000.

⁴¹"Second J18 Bulletin," (J18 Web site) available at [Http://greennet.org.uk/june18/bulletin2.html](http://greennet.org.uk/june18/bulletin2.html) ; Internet ; accessed on March 14 2000.

⁴²"Seattle - Mike Dolan is mobilising" [Www.snocoreform.org/wto_no.html](http://www.snocoreform.org/wto_no.html)

⁴³"Seattle - Mike Dolan is mobilising" [Www.snocoreform.org/wto_no.html](http://www.snocoreform.org/wto_no.html)

Seattle in time for the protests at the end of November. This caravan was organized by the Pennsylvania Consumer Education Project and the Pennsylvania Consumer Action Network and was supported by the PGA.⁴⁴ In Canada, a similar caravan was sponsored by the Canadian Union of Postal Workers, the Canadian Federation of Students, the Canadian Union of Public Employees, the Sierra Youth Coalition, the Canadian Auto Workers, and the Council of Canadians.⁴⁵

A mass non-violent action, aimed at shutting down the WTO was carefully planned for the thirtieth of November in Seattle. Action guidelines were available, plans were made to facilitate jail and court solidarity among the protesters, legal support was arranged. In addition, briefing, training and housing was arranged for the protesters or, as the PGA referred to them, the “mass action participants”.⁴⁶

The protests in Seattle were a success in a number of ways. Oxfam concludes that the collapse of the negotiations in Seattle created a valuable opportunity to campaign for radical institutional reform of the WTO and the refocusing of its agenda towards sustainable development; it was a rejection of the belief that it was acceptable for rich countries to dictate trade deals to the developing world without any meaningful consultation; most importantly it brought about a widespread public awareness-raising of the role of the WTO and the centrality of international trade to the livelihoods of ordinary

⁴⁴ “Actions against the WTO Ministerial in Seattle, 3.2 Shut down the WTO Caravan,” PGA Bulletin 4 (Peoples Global Action Web site) available at [Http://www.agp.org/agp/en/index.html](http://www.agp.org/agp/en/index.html) ; Internet ; accessed on March 7 2000.

⁴⁵ “About Us,” (WTO Caravan Web site) available at [Http://wtocaravan.org/us.htm](http://wtocaravan.org/us.htm) ; Internet ; accessed March 7 2000.

⁴⁶ “Actions against the WTO Ministerial in Seattle, 3.2 Shut down the WTO Caravan,” PGA Bulletin 4 (Peoples Global Action Web site) available at [Http://www.agp.org/agp/en/index.html](http://www.agp.org/agp/en/index.html) ; Internet ; accessed on March 7 2000.

people around the world.⁴⁷

A somewhat methodologically questionable, but nonetheless interesting opinion poll conducted after the protests found that the protesters got at least part of their message through to people in the Seattle area. Although attitudes to trade remained fairly unchanged there were dramatic changes in the attitude of the respondents with respect to their attitudes to the WTO. Before the demonstration 39% had answered the "WTO was harmful", this rose to 54% after the protests. Before the protests 53% had answered that the "WTO doesn't care what the public thinks", this increased to 68%.⁴⁸ It is likely the success of the demonstrations in Seattle in planting doubts in the popular imagination with respect to the merits of free trade negotiations will reinforce existing concerns as to the merits of establishing free financial markets. Attempts to resurrect the MAI and incorporate it into the WTO will likely have a more difficult time as a result of the protests in Seattle.⁴⁹

Future demonstrations will have the memory of Seattle to build on. The ongoing plans to pursue the tactic of organized protest and consciousness raising through mass action are impressive. For example on January 29, 2000, 1300 protesters demonstrated their

⁴⁷"Loaded against the Poor, Mixed outcomes from tear gas and talks in Seattle," (Oxfam UK Web site) available at [Http://www.oxfam.org.uk/wto/action.htm](http://www.oxfam.org.uk/wto/action.htm) ; Internet ; accessed March 5 2000.

⁴⁸Bruce Ramsay, WTO Protest message has some effect survey finds," (Seattle P-I.com Business) 4 February 2000, available at [Http://www.seattle-pi.com/business/surv04.shtml](http://www.seattle-pi.com/business/surv04.shtml) ; Internet ; accessed on March 4 2000. The primary concern with the methodology of this survey is that it is based on a convenience sample and that this may introduce some bias into the findings.

⁴⁹"About Us," (WTO Caravan Web site) available at [Http://wtocaravan.org/us.htm](http://wtocaravan.org/us.htm) ; Internet ; accessed on March 7 2000.

opposition to the World Economic Forum at Davos.⁵⁰ On March 25, 2000 the Ad Hoc Coalition against Globalization, an umbrella group consisting of “many various activist organizations” is planning a protest at the Inter American Development Bank Annual Conference in New Orleans.⁵¹ On Sunday, April 9 Jubilee 2000 USA planned a national mobilization for debt cancellation at the National Mall in Washington DC.⁵² A week later on April 16, a mobilization for social justice - a massive rally and non-violent protest was planned at the IMF and World Bank building in Washington DC.⁵³

On May 1, a group called Mayday2k, whose motto is “May our resistance be as global as their economy”, is coordinating a global day of action around the world.⁵⁴ On June 4, PGA is holding a meeting and protest to coincide with the Organization of American States meeting in Windsor.⁵⁵ On September 26-28, one can plan to join an estimated 20,000 participants expected to attend protests at the IMF meeting scheduled in Prague.⁵⁶ The list goes on. It is now possible to fill up a calendar with plans to attend protest

⁵⁰Tom Johnson, “Davos rises above the abyss,” (CNN Special Report World Economics Forum, January 31, 2000) available at http://www.cnnfn.com/2000/01/31/europe/davos_walkdown/ ; Internet ; accessed April 14 2000 ; other coverage available at (Auf Nach Davos Web site) available at [Http://lora.ch/davos/](http://lora.ch/davos/) accessed on March 7 2000.

⁵¹Ad hoc coalition against globalization, Stop the intra American Bank Web site available at [Www.mindspring.com/~keltim/idb/](http://www.mindspring.com/~keltim/idb/) ; Internet ; accessed on March 7 2000.

⁵² “April 9 and 10th National Mobilization for Debt Cancellation,” (Jubilee 2000 USA Web site) available at [Http://www.loga.org/JubRally.htm](http://www.loga.org/JubRally.htm) ; Internet ; accessed on March 6 2000.

⁵³“Mobilization for social justice,” (A16 web site) available at [Http://www.a16.org](http://www.a16.org) ; Internet ; accessed on March 14 2000.

⁵⁴Mayday 2K Web site available at [Www.mayday2k.org/](http://www.mayday2k.org/) ; Internet ; March 14 2000.

⁵⁵WTO Caravan Web site available at [Www.wtocaravan.org/oas.htm](http://www.wtocaravan.org/oas.htm) ; Internet : accessed on March 14 2000.

⁵⁶ destroyimf Web site available at [Http://www.destroyimf.org/news/html](http://www.destroyimf.org/news/html) ; Internet ; accessed on March 14 2000.

demonstrations around the world and to coordinate these plans by checking with information posted on the Internet.

While the long list of demonstrations and the existence of activists willing and able to organize these demonstrations is impressive, what is particularly remarkable and relevant to the discussion of context and countermovements is the scope and breadth of the long list of diverse organizations and groups involved in this process as well as the capacity of these groups to mobilize large numbers of people. This movement is marked by an increased willingness to question neoliberal justifications for economic policies which negatively affect or threaten the quality of daily life and by a sceptical view of claims that assert the certainty of benefits resulting from the construction of global markets.

Environmental issues and the perceived need to protect the biosphere from the forces of economic globalization provided a powerful common interest linking these groups at the local, national, and global levels. Social justice and sustainability provided a second common interest. The failure of market processes to successfully address these issues has catalysed opposition to the construction of free markets in trade and investment at the global level. A mood of protest is taking shape in many diverse groups in many countries. These groups are communicating and coordinating activities at the local, national, and global levels. The groundswell of protest which characterizes this movement may provide a basis for a generalized countermovement against a liberalized global market. One of the specific goals of such a countermovement would potentially be the constraint of liberalized international financial market processes.

IV. Conclusion

The discussion of the movements taking shape in support of the Tobin tax, the Jubilee 2000 initiative, and the popular demonstrations in opposition to the process of economic globalization suggests that a shift in popular opinion is taking place, that a countermovement opposing liberal financial markets is emerging. The link between this emerging countermovement and the development and implementation of policies constraining international financial market processes is unresolved however. In the absence of an overarching global state or a direct political connection between the expression of these countermovements and global institutions with the capacity to effectively and legitimately implement policy, the linkage between popular demonstrations of opposition and action remains unclear.

Many of these countermovements, especially those involved in the Tobin tax and Jubilee 2000 movements, seek to work through existing states and take advantage of the position of the latter's potential role in constructing and regulating international financial markets. Similarly, public demonstrations seek to influence state policy and, in this way, shape the outcomes of interstate negotiations. This tactic was used with success at the WTO meetings in Seattle where demonstrations cast doubts on the legitimacy of the WTO negotiating process and provided support to the developing countries opposed to this process and eventually helped lead to the collapse of the negotiations.⁵⁷

In addition to the desire to influence state policy through popular expressions of opposition, countermovements which seek to express their political will through mass

⁵⁷"Loaded against the Poor, Mixed outcomes from tear gas and talks in Seattle," (Oxfam UK Web site) available at [Http://www.oxfam.org.uk/wto/action.htm](http://www.oxfam.org.uk/wto/action.htm) ; Internet ; accessed March 5 2000.

mobilization and demonstration, create an underlying threat of widespread civil unrest. Since widespread civil unrest poses a threat to the entire capitalist system, capital, located in the state as well as in international and global financial institutions, is likely to support constraints on free market processes if such constraints are believed to be necessary to prevent the collapse of the system as a whole. The link between popular countermovements and regulation can be made through the self interested support of capital. This dynamic can be seen at work in the adoption of the Bretton Woods Agreement and its provisions to regulate international finance in an effort to make the world and, most importantly Western Europe, safe for capitalism while avoiding a return of the economic disasters of the interwar period. Today, however, unlike the aftermath of World War II, there is no organized communist movement to threaten the capitalist status quo. Nonetheless, the danger of economic and social dislocation, as well as the possibility of global financial collapse and depression, are a cause for some concern. Therefore, it is possible that popular demonstrations of opposition to economic globalization will be effective in generating increased support for constraints on financial market processes among those who benefit from these processes as they exist today and who have an interest in maintaining the sustainability of the system.

The countermovements examined in this chapter, and especially those involved in popular demonstrations, are based on a diverse collection of groups, individuals and motivations. This is a strength, but also a weakness. It is a strength because it demonstrates the importance and appeal of these issues, but a weakness because this diversity multiplies the considerable difficulties involved in developing coherent policy and

action. It is easier to agree to protest than to agree on the development and implementation of constructive solutions. There is a tendency for countermovements to fragment, be weakened by apathy, or to dissolve into anarchy.

Justice and human rights are closely incorporated in the popular movements that have been examined in this chapter and they form an important common basis on which to build global countermovements. It is important, however, to remember the negative potential of popular movements as well as the positive. This is of particular importance at the global level of interaction where there is no overarching moral authority, no overarching political authority, and little in the way of an effective legal framework with the capacity to defend human rights and liberties. Polanyi's description of countermovements in the nineteenth century provides examples of countermovements which play a useful role in generating adjustments in the society-market relationship that contribute to the stability and sustainability of this relationship.⁵⁸ What he describes as the great transformation however, - the rise of fascism - can be seen as a popular countermovement gone terribly wrong.⁵⁹

Some form of opposition to the outcomes of global financial market processes is clearly taking shape at the individual, local, national, and global level. This chapter has examined three emerging countermovements seeking to place constraints on international financial processes in order to incorporate issues of social justice and human rights in the international financial system. How effective these countermovements will be, or what will be their impact with respect to social justice and the sustainability of the society-

⁵⁸Polanyi, 163-200.

⁵⁹Polanyi, 237-238.

market relationship in international financial markets, remains to be seen.

Chapter 5

Conclusion

This thesis is situated in the broader literature which is sceptical of the claims of neoliberalism. Unfettered market processes, if left to their own devices, are destructive to the societies in which they operate and therefore, ultimately, destructive to themselves. In practice, market processes are embedded in a context. In a well functioning market society, this is a supportive context which constrains market processes, renders them tolerable to a given society, and therefore, renders them sustainable. Finally, even though in many respects, international financial markets, appear to be prime examples of the liberal free market model, they too must be embedded in a supportive context if financial market processes are to be sustainable.

The Polanyian concept of the double movement describes an important ongoing process of adjustment which is necessary to maintain the supportive aspects of context. In international financial markets the movement towards financial liberalization is the first part of this double movement. Under the Bretton Woods system, the international financial system was highly regulated, but the collapse of Bretton Woods and the reemergence of global financial markets, such as Euromarkets, have contributed to the destabilization of international financial markets. This movement towards liberalization in international financial markets has produced stresses in the market society relationship.

In response to this movement, a number of countermovements have developed which seek to re-stabilize international financial markets, adjust the context of international financial markets, and render the market-society relationship sustainable. Two potential bases countermovements have been identified. As discussed in Chapter 3, the first is located within the “society” of international finance. While this countermovement appears to be closely linked to the movement towards liberalization in international financial markets, it differs from this movement in several important respects. Rather than pursuing the goal of the liberalization of international financial market processes, this countermovement, working within the international financial system, seeks to place constraints on international financial market processes in the interest of maintaining the stability, sustainability, and profitability of the international financial system.

A second potential basis for a countermovement, or in this case a series of countermovements, is society at the local, national, international and global levels. As discussed in Chapter 4, a number of countermovements which seek to place constraints on international financial market processes are taking shape outside the financial system. Of these, the countermovements in support of the Tobin tax, Jubilee 2000, and popular opposition to economic globalization were discussed. All these countermovements seek to place constraints on international financial market processes in the interest of stability and, most importantly, social justice.

Although both those countermovements originating within and those originating outside of international finance seek to place constraints on international financial market processes, there is a substantial tension between them. This tension has to do with the

issue of social justice. For countermovements located within international finance, the main goal is to maintain the stability of the international financial system and social justice is, at best, a peripheral concern. In contrast, for those countermovements located outside international finance, social justice issues are central.⁶⁰ The goals envisioned by these two kinds of countermovements are substantially different. This difference has significant implications for the form of constraints on international financial markets that are envisioned. The relative success of these respective countermovements will determine, in large part, the shape of the market-society relationship in the future.

These two kinds of countermovements vary substantially with respect to their means of achieving their goals and their likelihood of success. The first kind of countermovements, based within international finance, have the advantage of view of being based on a society with a relatively clearly defined interest in maintaining the stability and profitability of international financial markets. As has already occurred to some extent, this common interest can be of great help in the process of defining common goals and in facilitating the cooperation necessary to achieve these goals within international finance.

There is, however, little in this dynamic which requires social justice considerations to be addressed in the formulation of either goals or actions in this kind of countermovement. The likely outcome of countermovements located within international

⁶⁰This tension between countermovements can be seen in the April 16, 2000 demonstrations in Washington D.C. where reforms are being called for by countermovements located both within international finance as well as those located outside international finance. See Eric Beauchesne, "Martin defends IMF, promotes reforms," Ottawa Citizen, 14 April 2000, D1 and D4 ; James Wolfensohn, "You can't beat us - so join us," Globe and Mail, 12 April 2000, A13.

finance would be an international financial system in which markets are stabilized and major crises are avoided for the time being. At the same time, the dynamics of free market processes will continue to generate a situation where ever larger numbers of people find themselves marginalised and excluded from the benefits of the global economy. In the long term, from a political perspective, the sustainability of a financial system that ignores growing social justice considerations is highly questionable.

In contrast, the countermovements based outside finance place issues of social justice at the centre of their efforts. These countermovements, however, face a number of organizational challenges if they are to achieve their goal of constraining international financial markets in the interests of social justice. They draw their support from a number of diverse interests and attitudes and, although they agree in general terms, it is far from certain that they can agree on details. It remains to be seen if these groups can make the leap from protest to policy. Will conflicting interests within these countermovements produce unsurmountable difficulties in achieving agreement on coherent policies for the regulation of international financial markets. For example, in the Bretton Woods negotiations, unwillingness to set the common good above the individual, or national, good was a serious impediment to establishing a durable system of financial regulation. The Bretton Woods agreement was the result of a relatively simple negotiation between the governments of two culturally similar countries who agreed on the need to regulate international finance yet, even in this case, the conflicting national interests of the United States and Great Britain resulted in an agreement that was fundamentally flawed. Can effective agreement and regulation emerge from these complex and diverse

countermovements?

The countermovements based outside international finance face serious collective action problems and a real danger that they will weaken or splinter. Their capacity to succeed in placing constraints on international financial market processes depends, in large part, on raising public consciousness and mobilizing public opinion. They must raise awareness on the importance of social justice issues as well as communicate the connection between social justice and international finance. This is a difficult challenge, partly because social justice issues are not of concern to all members of the public, and partly, because the technical and expert nature of the discussion around financial matters makes these issues difficult to translate into popular debate.

While many faith groups and church-based countermovements, such as Jubilee 2000, are well positioned to insist on the importance of social justice, this is not the case for all the groups involved in these countermovements. For example, many of these groups link social issues to environmental concerns and focus on the impact of the financial system on the environment. In many respects environmental concerns are of greater personal interest to the public in the developed world than are issues of social justice. Arguably, for many members of the public in the developed world, the cost in terms of human suffering that is resulting from structural adjustment programs is of less immediate interest than the thinning of the ozone layer. If a choice has to be made between constraints favouring environmental concerns and those favouring social justice, will it be possible to maintain solidarity among the groups making up these countermovements?

Also, countermovements which seek to influence public opinion through public

demonstrations are vulnerable to being labelled “illegal” or “unrepresentative”. Media reports which portray countermovements as potentially violent or threatening, undermine the ability of countermovements to bring their concerns before an interested and sympathetic public.⁶¹ The effectiveness of these countermovements based outside of finance depends on popular support and this support depends on the effective communication and popularization of the issues at stake. Effective, organized leadership is required. The political and social processes needed to forge a coherent, unified, durable alliance of countermovements face a difficult task..

In conclusion, a double movement is taking place. The movement towards the liberalization of international financial markets has destabilized international finance. In response to this movement, a number of countermovements have emerged. There are, however, reasons for concern in this process. Those countermovements located within finance tend to marginalise issues of social justice, and those countermovements located outside of finance, while promising from a social justice perspective, face considerable difficulties in coordinating the interests and actions of the diverse groups and individuals that comprise them. Although both kinds of countermovements seek to place constraints on international financial market processes with the goal of maintaining a supportive

⁶¹The Jubilee 2000 rally in Washington on April 9, 2000 received little media coverage, while the emphasis of much of the coverage of the April 16 demonstrations, one week later, tended to focus on the potential for violence. See Larry Margasak, “Police, protesters clash in U.S. capital,” Ottawa Citizen April 16 2000, A6. In this article, written the day before the main demonstrations, the emphasis was on the number of protestors arrested so far and the potential for future violence. For example a “plastic container with a rag stuffed inside” that protest leaders insisted was used to clean paint off people’s hands, was described as a “Molotov cocktail”. This report was later picked up in an editorial where it was described in these terms, “police swooped on a warehouse [sic] where the manufacture of Molotov cocktails was reported.” “Woodstock D. C.,” National Post, April 17 2000, A19.

context for international financial markets, if this will be achieved and whose interests these constraints will best serve, remains to be seen. Understanding the implications of this dynamic of movement and countermovement is an important step in building a more sustainable and just relationship between society and markets. Due to the central position of financial markets in the global economy, this is an important dynamic which has the potential to determine, not only the shape of international financial market processes, but also the stability, sustainability, and justice of the global economic and political system as a whole.

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