7 Stability, crises and governance in the contemporary world financial order

By contrast with prior world financial orders, the making of the contemporary order has and continues to be highly distinctive. Rather than the ascendant social forces associated with a newly emergent WFC framing change, a reconfiguration of those state and societal forces that had been pivotal in the previous American order has been at the heart of the making of the contemporary order. Grounded in asymmetrical patterns of material, social and political power relations and enabled by conditions in the wider world order, the social forces of New York and London, and not those of recently emergent Tokyo, have been at the forefront in framing the possible organisation of contemporary world credit practices. Power relations are, however, less hierarchical than in previous financial orders, with change in the very nature of material power relations contributing to the asymmetrical decentralisation of credit practices across the triad of WFCs. Crucial to carrying forward the marketisation, disintermediation and changing institutionalisation of credit practices has been a US-initiated competitive liberalisation and deregulation policy dynamic, reinforced by the neo-liberal politics of slowdown and the de-territorialisation of inter-state rivalry in the wider world order. As with our inquiry into previous world financial orders, an Historical IPE approach encourages us to ask whether this current financial order is characterised by relative stability and, if so, to identify those organisational principles and formal governance institutions that serve to reproduce the order.

Our conceptualisation of world finance as a succession of hierarchical social orders has realised some significant insights into stability and governance across modern world finance. Relative stability and the reproduction of financial orders is not simply a matter of inertia. Rather, consideration needs to be given to structures of financial governance as the ideas and institutions that forge periods of relative stability and enable the legitimate and authoritative management of credit practices, thereby contributing to the reproduction of financial orders. It has been shown that periods in previous world financial orders characterised by relative stability, that is, by broad-based acceptance of power relations and the organisation of credit practices as legitimate, have coincided with the centralisation of the order in a single WFC. In the somewhat exceptional New York-centred American order, relative stability hinged upon the principles of embedded liberalism that subordinated finance to money and trade and ensured a secondary position for New
York in the largely state-based structure of governance. Meanwhile, relative stability was forged around the cosmopolitan and liberal shared meanings framing credit practices in Amsterdam and London during the Dutch and British orders respectively, while the state, market and civil institutions centralised in these WFCs served to govern their respective orders. The institutionalised administration and management of credit practices was especially important in preventing fluctuations in practices generated by financial crises from leading to the structural disruption of each order.

Given the decentralisation of the contemporary financial order between the triad of New York, London and Tokyo and the resulting absence of a single complex of governance, comparative historical inquiry raises several questions with regard to the current era. First, if the contemporary decentralised order is characterised by relative stability, how has stability been forged and upon what organisational principles is it based? Second, how are we to account for the high incidence of financial crises endemic to the contemporary financial order? Third, in what ways has the decentralised order been marked by change in the formal institutions of governance and to what extent has this change been adequate for the reproduction of the current order? We address each question in turn.

**Relative stability and neo-liberal principles of governance**

The contemporary world financial order is characterised by emerging relative stability. Acceptance of the current organisation of credit practices as legitimate has been gradually forged around neo-liberal organisational principles of governance. Neo-liberal political economy offers a set of organisational principles or discourse of governance that is contested throughout the wider world order in the current era (Murphy 1994; Langley 2001). Such organisational principles are significant in carrying forward the restructuring that has marked the neo-liberal politics of slowdown. Neo-liberal organisational principles of governance are rooted in foundational beliefs in the role of the market mechanism and market mode of behaviour as the fair and rational arbiter in society. Particularly as a consequence of the claims to universalism made by neo-liberalism, market institutions are deemed ‘apolitical’ and become ‘naturally’ the most appropriate institutional loci for governance. Institutionalised practices take on a legitimate form once they are framed by market signals and subject to market-reinforcing self-regulation. Within state institutions, practices become organised less according to bureaucratic professionalism and more according to a new public managerialism such that social and political issues become technical and procedural matters, that is, matters to be managed. Furthermore and by virtue of the empiricist and positivist bases of neo-liberal political economy, neo-liberal organisational principles of governance also legitimate the governance role of particular experts that are seen as holding, producing and verifying relevant forms of knowledge. When combined with the predilection for self-regulation, certain experts, most notably auditors and accountants (cf. Power 1997), are deemed to be the most appropriate supervisory institutions.
Research in IPE serves to reveal various and wide-ranging ways in which neo-liberal principles have come to permeate contemporary world financial governance. First, neo-liberal principles of financial governance sit at the heart of the so-called ‘Washington consensus’ that since the 1980s has prevailed as the explanation of economic development (cf. Krugman 1995; Wade and Veneroso 1998; Williams 1999). The ‘Washington consensus’ refers not only to the American government, but to all those institutions and networks of opinion leaders centred in the world’s de facto capital – the International Monetary Fund, World Bank, think tanks, politically sophisticated investment bankers, and worldly finance ministers, all of those who meet each other in Washington and collectively define the conventional wisdom of the moment.

(Krugman 1995: 28–9)

Carried forward in particular through the World Bank’s structural adjustment programmes and IMF conditionality, the Washington consensus has combined financial liberalisation and deregulation that enables governance by the market mechanism with a range of other market-reinforcing principles. These include fiscal discipline, tax reform, competitive exchange rates, trade liberalisation, privatisation and, not least, private property rights. Second and on a similar note, Helleiner (1994: 19) highlights the monthly meetings of central bankers at the BIS as forming an ‘epistemic community’. Membership of this community leads to a convergence of normative frameworks around neo-liberalism, such that central bankers have come to share ‘a similar knowledge base, common causal and principled beliefs’ (Helleiner 1994: 19). Kapstein (1994) and Pauly (1994b) also draw attention more broadly to the cognitive and normative contribution of international organisations in shaping the governance of the contemporary financial order.

Third and in a different vein, for Sinclair (1994a, 1994b) the influence of neo-liberalism is clear in the authoritative assessments of risk, ‘based on their possession of specialized forms of knowledge from which they derive control’ (Sinclair 1994b: 447), undertaken by Standard & Poors and Moodys as the principal credit rating agencies. Not dissimilarly, Picciotto and Haines (1999: 360–1) stress the extent to which neo-liberal organisational principles have been carried forward in world finance through ‘the professional practices of various kinds of specialists: economists, accountants, scientists and lawyers’. To this list of professionals we could add the business advice dispensed by the major consultancy firms such as Andersen and McKinsey (cf. van der Pijl 1998: 160–2). Meanwhile, Harmes (1998) draws attention to the role of the collective investment decisions of Anglo-American institutional investors in encouraging the acceptance of neo-liberal social relations of production. While reasoned and rational financial criteria have always been important in modern world finance, in the current (neo-liberal) era other forms of evaluation become de-legitimated to an unprecedented extent. The effect is that the governance of finance becomes a technical and specialist mathematical exercise, largely divorced from public debate (cf. de Goede 2001).
This existing IPE research serves to challenge the de-politicised and naturalised representation of a convergence in world financial governance that is promoted by the neo-liberal discourse. It also serves to remind us that a structure of governance does not develop in a functional manner, but remains contested and constructed by the principal state and societal forces. Not surprisingly given the asymmetrical pattern of power relations in the contemporary financial order and conditions in the wider world order, the social forces of New York and London have been at the forefront in forging acceptance of the organisation of credit practices as legitimate. Directly and indirectly underpinning the various and wide-ranging mechanisms highlighted by existing research in IPE, neo-liberal organisational principles have come to permeate the contemporary financial order as a consequence of the diffusion of the shared meanings informing New York-centred and, to a lesser extent, London-centred credit practices. While the shared norms and meanings surrounding contemporary credit practices in New York and London draw on long-standing modern assumptions of rationality and reason, they are characterised by the ‘market fundamentalism’ (Soros 1998) of neo-liberalism.\(^3\) In broad terms, the epistemic authority of New York is clearly felt in its contiguous influence as part of the Washington consensus (Wade and Veneroso 1998). Further, the US Federal Reserve and Bank of England have been at the heart of neo-liberal cooperation in central banking networks (Baker 1999). Meanwhile, the epistemic authority of New York and London is carried through the world-wide reach of the networks of investment banks, credit rating agencies and institutional investors centred in these WFCs. For instance, for Moodys and Standard & Poors, ‘New York remains the analytical core, where rating expertise is defined and reinforced’ (Sinclair 1994b: 453). The epistemic authority of New York has also echoed across the deregulation of contemporary credit practices, a key component of the institutionalisation of neo-liberal organisational principles of governance. As Moran (1991: 121) asserts:

The resemblance to American practices emphasises a notable feature of recent regulatory change. It is tempting to represent what has been happening as a world-wide convergence. The image of convergence suggests, however, that all the financial centres in question are moving, at a significant pace, to a common point. This is not so. ‘Diffusion’ rather than ‘convergence’ best catches the nature of regulatory change: there is occurring an export of regulatory innovation from the United States to other countries.

As with the British and Dutch financial orders, then, the epistemic authority of the social forces of the WFCs of the day is crucial to the emerging relative stability. The decentralisation of the contemporary order has not proved necessarily to be a structural impediment to the establishment of relative stability. The spatiality of credit practices and the structure of power in the contemporary financial order may be decentralised and multi-polar, but the discourse that legitimates power relations and the organisation of world credit practices in which power is manifest is largely and increasingly univocal.
In a similar manner to the Dutch and British financial orders, the key to the diffusion of neo-liberal principles from New York and London throughout the contemporary order would seem to be competitive emulation. Given the perceived competitive success of New York-centred and London-centred market institutions, neo-liberal organisational principles have gradually come to be recognised throughout the contemporary financial order as ‘best practice’ in an ideal-typical sense. This was not clear for much of the 1980s, as the dramatic growth in the market share of Japanese market institutions fuelled the view that they constituted a ‘hegemonic threat’ (Nakao 1995: 103–23) to Anglo-American market networks. Such views were buttressed by debates in the wider world order that suggested the possible superiority of the Japanese ‘model’ of developmental state-capitalism (cf. Thurow 1992; Albert 1993). However, the collapse of the Japanese bubble economy in 1989, the subsequent malaise of Japanese finance and questioning of the Japanese model have served to gradually extinguish debate in world financial circles. This mood swing reached its zenith in the course of the Asian financial crisis, as any lingering doubts as to the apparent competitive superiority of Anglo-American credit practices were largely washed away. The seeming long-standing weaknesses of Japanese and Asian credit practices were exposed by the crisis, particularly the predilection for expanding corporate credit creation without concurrent increases in industrial productivity taking place (Krugman 1994). Simultaneously and as US triumphalist commentaries of the time were keen to point out (e.g. Zuckerman 1998), New York-centred credit practices and the American economy were enjoying the bull market boom of the so-called ‘new economy’. Gradually throughout the financial order and increasingly since the mid-1990s, the perceived competitive success of Anglo-American finance has lain at the roots of the neo-liberal legitimation of the contemporary organisation of credit practices.

Acceptance of contemporary power relations and the organisation of credit practices as legitimate remains, however, narrow in several respects. In terms of the coalition of social forces involved, the neo-liberal consensus is far less inclusive than that which underpinned and coalesced around the embedded liberal principles of the American financial order. Acceptance of the organisation of credit practices extends to members of the transnational financial community in which the social forces of New York and London predominate, and excludes organised labour in particular and the state and societal forces of the majority of underdeveloped state-societies more broadly. While the growth of occupational pensions and mutual funds in Anglo-Saxon political economies serves to link the material interests of privileged workers with the performance of institutional investors, the extent to which this also contributes to the legitimation of the organisation of world credit practices is limited. As the debate in the UK during the 1990s over endowment mortgages illustrates, linking everyday saving to world credit practices hinges on the performance of the latter rather than a broad-based acceptance of their legitimacy. Once it became clear that calculations made concerning the capacity of the performance of securities investments to meet mortgage repayments were overly optimistic, the link between everyday saving and world credit practices was seriously questioned.
The principal transnational state and social forces of world finance are bound together by a ‘bottom line’ perceived shared interest in perpetuating the contemporary financial order and an awareness, fuelled by the experience of the Great Depression of the 1930s, of the potentially radical social and political consequences of collapse. Agreement as to the appropriate organisation of credit practices remains fragile and not based on organisational principles that are simply immutable. Relative stability forged around neo-liberal organisational principles has been subject to instances of destabilisation and reaffirmation. For example, in the wake of the Asian crisis of 1997–8, a group led by high profile economists including Jagdish Bhagwati and Paul Krugman and, most notably, by the (then) World Bank chief economist Joseph Stiglitz strongly questioned the neo-liberal preference for the universal removal of exchange and capital controls. Their objections received partial support from the financial ministries of Japan and, to a lesser extent, some continental European state-societies. By virtue of their ‘state-capitalist’ (Cox 1991/1996: 201–4) form and associated Roman Law national financial structures, these governments were normatively predisposed to give credence to at least limited versions of capital controls (cf. Pauly 1994a). However, debates over capital controls among the narrow transnational community did not lead to a serious questioning of neo-liberal organisational principles and contestation as to the appropriate organisation of world credit practices in any fundamental sense. Instead, agreement was fashioned around the assumption that capital controls should be neither retained or put in place, but that so-called emerging markets should ensure the soundness of their national financial governance arrangements before dismantling capital controls (BIS 1999b; Eichengreen 1999). Key here was the juxtaposition of the ‘bad’ Malaysian response to the crisis of limiting currency convertibility and putting in place capital controls with the ‘better’ example of Chile (Germain 2000). Based on the Chilean experience in particular, a potentially heated debate was effectively reduced to the technical question of the correct ‘sequencing’ of financial restructuring. Acceptance of the organisation of credit practices remained among the transnational coalition of forces as neo-liberal organisational principles evolved to largely absorb the capital controls question.

Acceptance of the organisation of credit practices as legitimate is also narrow in terms of the extent to which neo-liberal organisational principles are institutionalised across market networks. This is especially the case as divergent norms and shared meanings informing credit practices persist across the triad, with Tokyo standing as the exemplar of ‘a distinct regional financial culture’ that ‘challenges many neo-liberal economic principles’ (Crawford 2001: 46, 48). For instance, Taggart Murphy’s (1996: 43–59) investigation into ‘the credit decision’ reveals differing understandings of the assessment of risk between New York and Tokyo. Assessments of risk that in New York hinge upon market fundamentalist expectations of future profitability contrast with those in Tokyo which, in the first instance, focus upon collateral. New York-centred and Tokyo-centred financial market institutional networks also differ in terms of the understandings that frame their competitive strategies. New York-centred market networks tend to focus on their
capacity to generate value-added services for their corporate customers and upon trading, deal-making and the creation of new financial instruments. In contrast, the competitive strategies of Tokyo-centred market institutional networks tend to focus upon increasing market share and reducing the cost of capital to their customers (McGahey et al. 1990: 142–3). At the root of the distinct understandings of risk and competitiveness in Tokyo is Japan’s ‘banking-industrial complex’ (Carnoy et al. 1993: 82), built upon the persistence of cross-shareholding keiretsu relationships between financial market institutions and corporations (Taggart Murphy 1996: 28–42). The different understanding of credit practices in Tokyo was highlighted once again in the aftermath of the Asian financial crisis (Bello 1998: 434). Technical assistance provided by the IMF has subsequently been in large part an attempt to transform the shared meanings that frame credit practices in Japan by calling for greater transparency and disclosure by market institutions.

According to the neo-liberal discourse, credit practices must embody the rationality of the market mode of behaviour in order to enable the governance role of the market mechanism. On the one hand, then, the considerable extent to which Tokyo-centred practices diverge from New York and London’s neo-liberal norms would seem to represent not narrowness of agreement over the legitimate organisation of practices, but disagreement. On the other hand, however, as with the Dutch and British financial orders, alternative shared meanings informing credit practices are able to co-exist within a situation of relative stability as long as this does not manifest itself in elemental contestation over the appropriate organisation of practices. Put another way, acceptance of the organisation of credit practices as legitimate in the diachronic moment does not necessarily translate into a convergence in day-to-day credit practices. As Perraton et al. (1997: 270–1) stress, the significance of neo-liberalism in the contemporary financial order does not lie in its capacity to inform rational and objective credit practices. Instead, it provides a governance discourse to legitimate inherently subjective credit practices organised through hierarchical market institutional networks by reifying the façade of the market mechanism.

### Crises and contradictions

Throughout modern world finance, financial crises have tended to stand as important moments in the reproduction or unravelling of successive financial orders. The resolution of financial crises through structures of governance has been integral to the reproduction of financial orders, preventing the superficial fluctuations to credit practices that arise in a crisis from escalating into structural disruption and the unravelling of an order. As the financial crises of the late eighteenth century and 1929–31 illustrate, crises that occur during periods of relative instability — that is, when considerable contestation surrounds the appropriate organisation of credit practices — may expose weaknesses in the ability of formal institutions of governance to manage credit practices and thereby contribute to the unravelling of a financial order.

The contemporary financial order is crisis-ridden. Prior to the Asian crisis, a
study by IMF economists (Lindgren et al. 1996) found that of the Fund’s 181 member states, 133 had experienced disruptions to banking practices between 1980 and early 1996. Overall, the findings classified 108 instances of disruption as ‘significant’, and 41 instances in 36 states as ‘crisis’. In many instances of ‘crisis’, disruptions generated a sizeable reduction in GDP. Both the high frequency of crises and the extent of their detrimental consequences for economic growth were found to be worse than for any similar period since the Great Depression of the 1930s. More significant in our terms, the contemporary financial order itself has lurched from one major crisis to another. Such major crises are widely interpreted as each holding a so-called ‘systemic threat’, that is, whereby disruptions to credit practices could be sufficient to lead to world structural disruption. To date these crises have included the debt crisis of the early 1980s, the stock market crash of 1987, the European Exchange Rate Mechanism debacle of 1992–3, the Mexican crisis of 1994–5, the Asian crisis of 1997–8 and the subsequent Russian and Brazilian crises of late 1998 and early 1999. Alongside these major crises have been high-profile instances of the failure of market institutions operating at a world-scale including the Franklin National Bank, the Banco D’Ambrosiano, the Bank of Credit and Commerce International (BCCI), Barings Bank, Yamaichi, and Long Term Capital Management (LTCM).

A common sense explanation of the major crises of contemporary world finance has emerged, at once reflecting and contributing to the forging of relative stability around neo-liberal organisational principles of governance. Grounded in empiricism and positivism, the neo-liberal orthodoxy has sought to explain crises in terms of causal connections between externally observable phenomena in the national political economies concerned. In the first instance the causal factors in all crises are, in effect, domestic and non-market. Certain domestic policy decisions and/or institutional arrangements are deemed to be inappropriate as they are cast as perverting or forestalling the market mode of behaviour and the capacity of the market mechanism to rationally determine exchange rates and the availability or otherwise of credit. World credit practices would, from this reading, ensure the efficient recycling of capital from areas of surplus to areas of demand in the absence of political impediments to the market mechanism. Not surprisingly, ‘one size fits all’ prescriptions for crisis resolution follow, exemplified in IMF conditionality. An extract from a speech made to the NYSE on 21 September 1998 by British Prime Minister Tony Blair represents a concise summary of the orthodoxy. As crisis spread from Asia, engulfed Russia and threatened to spread further to Latin America, Blair asserted:

The lesson from the current crisis is not that market disciplines have failed, but that in a global economy, with huge capital flows, the absence of such disciplines can have devastating effect. Countries must put in place the right policy framework – monetary policy targeted at low inflation, sound and sustainable fiscal policies and structural reforms to improve the supply side performance of the economy. Tax systems that work. Strong, properly regulated and fully transparent banking and financial systems.8
The explanation of crises as the outcome of domestic institutional inefficiencies and policy mistakes contributes to the legitimation and acceptance of the organisation of world credit practices. The neo-liberal orthodox explanation of contemporary world financial crises first found its expression in the course of the debt crisis of the early 1980s. Blame for the debt crisis was placed firmly at the door of the underdeveloped sovereign borrowers themselves, rather than with the commercial banks that organised syndicated petro-dollar recycling. Latin American states were, in particular, accused of economic mismanagement that rendered the repayment of loans impossible (IMF 1986). Mismanagement was held to combine misguided policies of Import Substitution Industrialisation (ISI) that protected domestic industries, thereby reducing their competitiveness and capacity to generate the foreign exchange necessary for loan repayment; expansionary monetary policies that increased inflation, reduced domestic saving rates, and ultimately encouraged foreign borrowing to purchase imports; and poorly judged investment decisions, such as Brazil’s nuclear energy programme, that did little to stimulate development and instead lined the pockets of a corrupt elite. Similarly, the 1994–5 Mexican peso crisis is interpreted by the orthodoxy as rooted in another combination of inadequate macroeconomic policies (especially with regard to the informal fixing of peso–dollar exchange rates at unrealistic levels and irresponsible current account deficits) and funding consumption through unsustainable foreign sovereign borrowing (Granville 1999; White 2000).

Meanwhile, the common sense explanation of the Asian crisis of 1997–8 places less causal emphasis on macroeconomic policies. The dangers inherent in the policy throughout the region of pegging exchange rates to the US dollar, leading to massive unhedged world-scale private borrowing denominated in foreign currencies (typically the US dollar or Japanese yen), are highlighted by the orthodoxy. However, the focal point for neo-liberal explanations has been ‘internal financial sector weaknesses’ (Goldstein 1998: 7–14; cf. IMF 1998a), and in particular so-called ‘crony capitalist’ patterns of lending that promoted irrational and poorly regulated credit creation and investment based on social and political relationships rather than rational risk analysis. The causes of the most recent crises in Russia and Brazil have, once again, been interpreted as residing in domestic policy and institutional configurations. Russia’s profligate fiscal policies are held to have been unsustainable and to have led inevitably to the devaluation of the rouble in August 1998 (cf. Granville 1999: 724). Meanwhile, the dominant explanation of the Brazilian crisis ‘calls attention to the distortions of macroeconomic fundamentals and government failures to put in place the “right” policy conditions which would enable a national economy to participate effectively in the globalized international economy’ (Higgott and Phillips 2000: 363).

By proportioning blame on domestic policies and institutions that are perceived either not to reflect or to act as impediments to market signals, the common sense neo-liberal representation of contemporary financial crises effectively rests on the assumption that market disciplines are produced by world credit practices. Preventing further crises is viewed as hinging on the adoption of market-conforming
macroeconomic policies and the extension of the rational market mode of behaviour from world credit practices to local credit practices.

What the orthodoxy fails to recognise, however, is the inherently subjective nature of all credit practices that was made plain by Keynes. As a range of recent research into contemporary financial crises has stressed, crises are the immediate outcome of shifts in collective market sentiment. Such sentiment informs world credit practices and has the potential to become largely self-fulfilling (Soros 1998; Eatwell and Taylor 2000). Contemporary financial crises do not deviate significantly from the phases of speculative excess, distress, panic and crash that have characterised crises throughout modern world finance (cf. Kindleberger 1978). Fickle shifts in the opinions of those at the apex of contemporary market hierarchies manifest themselves in a speculative rush of often leveraged and typically short-term portfolio investment and inter-bank lending that, as sentiment shifts, heads into a distressed reverse. Given that ‘separate national currencies themselves are increasingly inextricably locked into wider financial trends and structures’ (Cerny 1994a: 591), sharp fluctuations in capital movements also wreak havoc with exchange rates.9

Contrary to the neo-liberal orthodoxy, then, the major crises of contemporary world finance are an expression of structural tendencies and not simply the result of the ‘wrong’ domestic policy decisions and/or institutional arrangements. Recognition of the inherent subjective and collective nature of credit practices highlights that the immediate source of successive major financial crises has been sudden shifts in the shared meanings and expectations framing world credit practices. Our inquiry suggests two further related conjuncturally specific features of recent systemic financial crises, both of which arise from the generalised financialisation of contemporary credit practices. First, the high incidence of crises in the contemporary financial order can be accounted for in terms of financialisation. Financialisation has involved the speculative accumulation of capital through credit practices themselves becoming a structural feature of contemporary world finance. Such accumulation hinges on the subjective identification of investment opportunities in one type of asset or another, especially in the situation of intensified competition between market institutions. On a daily basis, contemporary speculation focuses on the rapid and on-going opening and closing of opportunities for accumulation that arise in the course of foreign exchange, securities and derivatives trading practices in particular. At the same time, investment and the creation of credit in support of investment have generated a pattern of largely discrete speculative waves in the contemporary financial order – sovereign lending to underdeveloped state-societies in the 1970s, disintermediated and securitised practices in support of developed world corporate restructuring during the 1980s, a focus on so-called emerging markets in the 1990s, and the ‘tech stocks’ fad at the turn of the millennium. Each speculative wave has been followed by a backwash, that is, a distressed withdrawal of capital and credit, and in some instances by panic and crash.

Second, reference to financialisation also reveals an important contradiction in contemporary world credit practices that comes to the surface in the course of
crises. The speculative practices of world finance are not completely separate from the real economy of world production and trade. Claims and obligations arising from investment and credit creation are often directly and indirectly claims and obligations on the real economy. The current situation of financialisation ‘expresses itself not only quantitatively as the ascendance of financial contracts over real economic turnover, but also as a qualitative effect of a subordination of real economic and social relations to the financial system’ (Altvater 1997: 59). For instance, while the major corporations and states have increasingly funded the majority of their investment from retained earnings or taxation since the late 1990s, the ‘tail’ of their obligations arising from world credit practices continues to ‘wag the dog’ of their corporate and state policy objectives (Cutler and Waine 2001; Grahl 2001).

Secondary trading strategies focused on short-term returns prevent ‘back sliding’ by sovereign and corporate borrowers alike from the economistic criteria of embedded financial orthodoxy or shareholder value. All promises to pay generated by credit practices carry with them assumptions that contribute to shaping the context for the undertakings of those to whom debt obligations apply. When world credit practices are subject to financialisation, promises to pay carry with them the assumption that socio-economic relations are commodified. However, as Polanyi’s (1944) inspirational analysis serves to remind us, the adjustment of social relations in the face of pressures for commodification encounters significant social, political and embedded institutional forces. It follows that a contradiction is present between credit practices that are subject or respond to speculative motivations on the one hand, and the tensions generated by credit obligations that assume the commodification of real socio-economic relations on the other. Taking subtly different forms in specific instances, financial crises break out as the real economy is not able to consistently meet the obligations and expectations arising from speculative credit practices. The major crises of contemporary world finance share their roots in this structural contradiction that, at different instances, rears its head and finds expression in the distress and panic of financial market sentiment.

By way of brief illustration, this structural contradiction was clearly apparent in the wave of speculation that embraced the so-called emerging markets during the 1990s. For the first years of the decade, the attention of New York and London-centred credit practices in particular was guided by a perception of opportunities for accumulation in Latin America. Underlying the focus of world credit practices on Latin America were the limited returns available from assets in North America and Europe, as securities markets entered a period of slow growth and real interest rates remained comparatively low. This was supplemented by the general air of optimism in the future of the world economy that was generated by the collapse of the Soviet bloc, and a seeming commitment throughout the region to the main planks of the Washington consensus that served to inspire confidence among financiers and investors (Krugman 1995). Mexico was the eye of the storm of speculative excess, receiving net capital inflows of $91 billion between 1990 and 1994 that were equivalent to around one-fifth of all net capital inflows to underdeveloped state-societies during this period (Strange 1998b: 102–5; Bello et al. 2000: 10). The Mexican Brady bonds agreement of 1989 to further reschedule the
debts outstanding from the crisis of the early 1980s had placed sovereign finances on a firm footing, Mexican capital controls had been all but eliminated, and Mexican production was increasingly intertwined with the neighbouring US economy under the auspices of NAFTA. Borrowing in New York at rates of interest of around 5–6 per cent in order to invest in Mexico where it seemed reasonable to expect a rate of return of at least 12–14 per cent was attractive to US pension and mutual funds in particular (Porter 1997: 183–5; Önis and Aysan 2000: 126–8). While focusing on Mexican securities broadly and realising a stock market boom that saw a 436 per cent rise over a three year period (Strange 1998b: 97), speculative short-term investment and trading concentrated on tesoros (dollar-denominated sovereign credit instruments).

While Mexico was the star attraction of emerging markets in the early 1990s, the real economy showed little prospect of living up to the wildly optimistic shared assumptions that informed world credit practices (Cameron and Aggarwal 1996). The average economic growth rate in Mexico between 1990 and 1994 was only 2.5 per cent, less than population growth and below the 3.1 per cent average for Latin America as a whole (Krugman 1995: 40–1). A contradiction was present, then, between ‘the rosy view of investors’ and ‘the sorry prospects of the real economy’ (Bello et al. 2000: 11). This remained obscured for some time, hidden beneath the euphoria surrounding emerging markets in general and disguised by a Mexican balance of payments equilibrium in which net capital inflows offset deficit indicators. However, as Mexican exports slowed further and the government sought to increase fiscal spending rather than devalue the peso, the contradiction surfaced. Distress became panic as speculative foreign investments and lines of credit were rapidly withdrawn, placing the value of the peso under extreme pressure. Interest rate hikes by the Mexican authorities to encourage investors to hold out proved useless, as the real economy was depressed further leading to market expectations that devaluation was unavoidable. The Mexican crisis was, then, ‘due to a rapid inflow and even quicker outflow of short-term capital (mainly from United States mutual funds)’ (Picciotto and Haines 1999: 352). The peso was devalued and floated on the foreign exchanges in December 1994, unleashing the so-called ‘Tequila effect’ of similar downward pressures on the other currencies in Latin America. While the governments of Brazil and Argentina were successful in resisting these pressures by increasing interest rates and cutting fiscal expenditure in order to remain attractive to world credit practices, the price was economic stagnation (Strange 1998b: 100–1). Meanwhile, in February 1995 the US Federal Reserve, in conjunction with the IMF and World Bank, put together a rescue package for Mexico of in excess of $50 billion.

The Mexican crisis did not spell the end of the emerging markets fever. Asian economies, most notably the so-called ‘Asian five’ of Indonesia, Malaysia, Philippines, Thailand and South Korea, were the focal point for a ‘credit boom’ (Goldstein 1998: 7) that dated from 1993–4. The creation of credit exceeded the already rapid growth of GDP across the Asian five, increasing steadily from 1992 through to 1996 (Bevacqua 1998: 414). While feeding somewhat distinct patterns of investment across the Asian five and ultimately leading to differential
experiences of crisis (cf. Henderson 1999), the expectations that underpinned the boom were commonly and dramatically overly-optimistic. World-scale speculative practices were again to the fore, as the foreign financing of the Asian five more than doubled from $45.2 billion in 1994 to $95.2 billion by 1996.\(^\text{11}\)

The Asian crisis of 1997 was not, however, simply a repeat of the Mexican crisis. The contradiction between world credit practices that are subject or respond to speculative motivations on the one hand and the tensions generated by obligations that assume the commodification of real socio-economic relations on the other took a specific form in Asia. There were, of course, similarities with the Mexican crisis. For instance, the series of currency crises that spread from Thailand across the Philippines, Indonesia, Malaysia and South Korea were largely a consequence of movements of credit and capital. The exchange rates of the Asian five were pegged to the dollar, stimulating large volumes of short-term, unhedged foreign-currency denominated borrowing that, when it was reversed, wreaked havoc with currency values (IMF 1998a: 4; Corbett and Vines 1999: 157). Furthermore, like Mexico, capital controls across the region had been recently liberalised.

Two key related differences distinguished the Asian crisis from the earlier Mexican crisis. First, the world-scale speculative practices of credit creation and trading that in Mexico had taken the form of portfolio investment in sovereign instruments in particular contrasted with the dominant form of practices in the Asian case. Short-term inter-bank loans were to the fore in stoking and bursting Asia's credit boom, accounting for $55.7 billion of the $95.2 billion of the foreign financing that poured into the region in 1996.\(^\text{12}\) Second, speculative short-term inter-bank lending was both primarily Tokyo-centred and Japanese banks were the principal players in the organisation of these practices. This contrasted with the largely New York-centred practices of US institutional investors and investment banks that had characterised the Mexican crisis. The short-term, dollar-denominated inter-bank lending practices of Japanese and non-Japanese commercial banks were undertaken in the offshore space that incorporated Hong Kong, Singapore and, at its hub, the TOM (Bernard 1999: 191–2). By the end of 1997, Japanese banks had an exposure to the Asian five totalling $76 billion, well in excess of German ($29 billion), French ($26 billion), US ($23 billion) and UK ($17 billion) banks (IMF 1998a: 116).

During the early 1990s, Japanese banks had re-established the practices of foreign borrowing that had been important to their position in the bubble years of the late 1980s. Alongside the capital generated by comparatively very high rates of domestic saving and massive current account surpluses, dollar-denominated borrowing by Japanese banks was significant in fuelling the bubble economy (Nakao 1995). The latter tended to be organised by the branches of Japanese banking networks in London, New York, Hong Kong and Singapore, in the main taking the form of short-term inter-bank borrowing. The outstanding net short-term liabilities of Japanese banks increased from $–44 billion in 1985 to reach a peak of $265.9 billion by 1989. When the bubble economy burst, some $190 billion worth of these liabilities were repaid over the next three years as borrowing was seriously curtailed. By 1994, however, the outstanding net short-term overseas liabilities of
Japanese banks had once again climbed to $216 billion (Lapavitsas 1997: 31). In Bevacqua’s (1998) terms, such an expansion in support of the Asian credit boom can be read as the effective expansion of the bubble economy throughout the region. By borrowing from the world inter-bank market, the practices of Japanese commercial banks were subject to credit relations that assumed commodification. Simultaneously and given that in large part the credit practices of the Asian five’s banks remained embedded in their respective economies, Japanese re-lending to these banks created obligations that could not match the assumption of commodification. Caught between a rock and a hard place, Japanese banks withdrew their inter-bank lines of credit to the Asian five. This volte-face by Japanese banks served as the initial prick that deflated Asia’s credit boom. Japanese banks’ exposures to the rest of Asia fell from $210 billion in the middle of 1997 to $190 billion by the end of the year, while the exposures to Asia (excluding Japan) of German, French, US and UK banks remained relatively unchanged throughout 1997 (IMF 1998a: 134–5). The volte-face by Japanese banks effectively precipitated the shift in market sentiment, the withdrawals of credit and capital, and the vicious circle of financial and currency crises that followed. The crisis-laden contradiction of speculative world credit practices played itself out in Asia in the first instance, then, within Japanese commercial banking networks.

**Formal governance: towards transnational multilateralism**

Across successive world financial orders, the formal authority exercised through market, civil and state institutions in the management of credit practices has waxed and waned. For instance, during the Dutch financial order, the widespread acceptance of the cosmopolitan values of Amsterdam’s social forces provided the basis for the exercise of authority through market and civil institutions relatively free from state involvement. During the American financial order meanwhile, the forging of relative stability around the principles of embedded liberalism legitimated an organisation of credit practices that was formally managed through a largely state-based structure of governance in which New York’s market institutions played a subordinate but supportive role. Two commonalities have, however, been shared by modern world financial orders in terms of formal authority. First, relationships between market, civil and state institutions in the organisation of credit practices have been interdependent in each order, the balance between them reflecting the respective organisational principles of governance. Second, pivotal to the interdependent governance roles of state, market and civil institutions has been their centralisation in the dominant WFC of the day. Even in the American financial order in which the Washington–New York axis and not simply New York stood as the key complex of governance, the centralisation of albeit circumscribed market authority in New York was a significant feature of the structure of governance. It is these comparative historical insights that frame our account of formal governance and the reproduction of the contemporary financial order.
From states to markets

By comparison with the American financial order, a significant shift in the balance of authority between state and market has taken place in contemporary world finance (Porter 1993; Germain 1997; Underhill 1997b). Given the forging of relative stability in the contemporary financial order around the organisational principles of neo-liberalism, it is not surprising that formal governance has and continues to be characterised by increased market authority. Contrary to the neo-liberal discourse of governance, however, financial governance by the ‘invisible hand’ of the market mechanism is not a natural or apolitical development. Market authority rests not with the cumulative rational decisions of individuals that comprise the market mechanism but, in view of the subjective, hierarchical and collective nature of financial markets, with the principal market institutions that play a role in the organisation of credit practices. It is the political undertaking of financial liberalisation and deregulation and its legitimation that enables a shift of responsibility and authority from state to market.

In comparative historical terms, the formal authority wielded through market institutions in the organisation of credit practices is suggestive of several parallels with the Dutch and British financial orders. In general terms and in contrast with the American financial order, both the Dutch and British orders were also characterised by a largely market-based structure of governance. More specifically and reminiscent of the position of the great merchant houses in the Dutch and British orders, disintermediated credit practices in the contemporary order have been organised largely through the institutional networks of the major investment banks. However, there are several important conjunctural features in the market-based governance of the contemporary financial order, as the institutionalisation of credit practices has a distinctive pattern. The removal of regulations that previously compartmentalised credit practices according to institution type and the associated shift towards the universal banking model has ensured that market institutions in general, and commercial banks in particular, play a broad role in the organisation of practices. More specifically, institutional investors now legitimately play a key role in the organisation of practices of capital investment and secondary trading. Furthermore, the tendency towards consolidation in the financial markets, carried forward in the main by mergers and acquisitions between the major commercial and investment banks, constitutes ‘a new departure in the historical balance of power between public and private authority’ (Germain 1997: 106). So-called ‘global banks’ enjoy the lion’s share of authority in the organisation of credit practices.

While the design capacity of state institutions has been central to the contemporary marketisation of credit practices and enabling the attendant governance role of market institutions, the operational capacity of state institutions in the structure of governance has been simultaneously and consequently eroded. As Dyson et al. (1998: 174) assert, ‘a crisis of effectiveness of traditional monetary and exchange rate policy instruments’ has become apparent. Such has been the declining authority of central banks that some neo-liberal commentators have suggested
that the time is ripe for their monopoly privileges in the issuing of money to be taken away (e.g. Dowd and Timberlake 1998). Direct credit controls have become fruitless in the face of offshore practices, target indicators of the national money supply have been called into question by the massive volume of credit created by world-scale practices, and the sheer value of daily foreign exchange trading practices severely circumscribes efforts to manipulate exchange rates (Dyson et al. 1998: 178–81). The operational capacity that does remain at a world-scale is, at one and the same time, more evenly distributed than in previous financial orders and yet continues to be asymmetrical. For instance, as Germain’s (1997: 137–61) account of the authority of central banks illustrates, the capacity of US Federal Reserve to decisively manipulate the organisation of credit practices through interest rate changes has been partially circumscribed throughout the contemporary financial order. In the context of a more multi-polar world economy and a decentralised financial order, the Bundesbank and Bank of Japan charted independent interest rate policies throughout the 1990s. With the advent of the European Central Bank and single currency, euro and dollar interest rate policies have continued to diverge (Grahl 2001). At the same time, however, the continued dollar-denomination of the majority of world credit practices, the large volume of outstanding US sovereign debt, the importance of the US economy to world consumption, and the depth of New York’s capital and equity markets have all ensured that the Federal Reserve retains the capacity to authoritatively influence credit creation in the short-term through open market operations.

Unlike, for example, the position of the Bank of England in the British financial order, the central banking institutions of any single state lack the necessary reach throughout the contemporary order to contribute significantly to the control of world credit practices. In previous centralised financial orders, the cohesive relationships between the principal central bank and those contiguous market institutions that institutionalised world credit practices ensured that so called ‘moral suasion’ and personal relationships could contribute to the manipulation of practices. Local and national money management was world management. In the contemporary decentralised order, no individual central bank enjoys such reach and influence throughout the organisation of credit practices. This is compounded by offshore which weakens the governance role of central banks broadly. Strategic attempts to exercise operational capacity by the principal central banks have involved limited co-operative action under the auspices of the G-7 forum of finance ministers, most notably realising the Plaza Accord of 1985 that sought to devalue the US dollar against the Japanese yen (Webb 1995). The circumscribed asymmetries that characterise the authority of the principal central banks in the contemporary financial order are, then, a reflection of the spatiality of credit practices.

Given the declining authority of state institutions, it would seem tempting to represent the structure of governance in the contemporary financial order as a victory for the market over states. Such a ‘states against markets’ (Boyer and Drache 1996) or ‘governance without government’ (Rosenau 1992) approach would, however, be misleading. To follow Taylor’s (1995) representation of contemporary
governance as the transcendence of city-centred market networks over territorially-based state institutions would be similarly erroneous. The decentralisation of the contemporary financial order has indeed led to something of a disjuncture in the structure of governance between the world-scale reach of market institutional networks and the more limited reach of state institutions (cf. Gill 1992). Authority is fragmented and overlapping (Underhill 1997d: 315; Strange 1998a: 171), exercised through a complex array of institutions anchored across the principal financial centres. Yet decentralisation has not destroyed the interdependence of state and market institutions in the governance of the contemporary order. As Underhill (2000: 129) observes, contemporary financial governance is not characterised by a ‘tug-of-war’ between state and market institutions. Rather, state and market remain interdependent as part of ‘the same essential ensemble of governance’ (Underhill 2000: 118). The formal reproduction of the decentralised contemporary financial order has hinged upon a structure of governance in which interdependent market and state authority is coming to take an unprecedented form.

Transnational multilateralism

While decentralisation has not proved to be a serious structural impediment to the forging of emerging relative stability around neo-liberal organisational principles, it has been of far greater consequence for formal governance. Interdependent market and state institutions are undergoing unparalleled transformations that, taken together, constitute what can be termed ‘transnational multilateralism’. Both market and state authority is increasingly transnationalised. Governance through transnational market networks is being furthered and reinforced by state-based regulatory, supervisory and crisis management programmes that are undertaken multilaterally. While this ‘complex multilateralism’ (O’Brien et al. 2000) often focuses on inter-state co-operation through institutional forums such as the G-7, BIS and IMF and is guided by neo-liberal principles, it also incorporates a transnational financial network of ministers, bureaucrats, financiers and, to a limited extent, other forces of civil society. By comparison with the ad hoc inter-state crisis management initiatives of the Dutch and British financial orders, contemporary multilateralism differs in terms of its greater scope, institutionalisation and transnationalisation. At the same time, the transnational and market-reinforcing nature of contemporary multilateralism also distinguishes it from the inter-state arrangements of the Bretton Woods era.

In the Dutch and British financial orders, those market institutions that performed a legitimate governance role at a world-scale were anchored in Amsterdam and London respectively as complexes of governance. By contrast, the market institutions of New York, London and Tokyo each lack the necessary reach throughout the contemporary financial order to comprehensively manage credit practices. For example, New York investment banking networks such as J.P. Morgan, Merrill Lynch and Goldman Sachs enjoy considerable authority in the organisation of capital and equity market practices that provide sovereign and
corporate credit. Alongside their market shares, the governance role of these institutions is evidenced in qualitative terms by the rise to prominence of the portfolio selection models they pioneered to mathematically calculate risk and return (cf. Saber 1999). The governance role of New York’s investment banks is supplemented by the authority in capital market and equity investment and secondary trading enjoyed by American institutional investors, the governance role of New York’s credit rating agencies, and the supervisory and regulatory capacities of the NYSE and SEC. Yet a New York-centred structure of governance in the organisation of capital and equity market practices remains nascent while the majority of these practices are undertaken offshore and centred primarily in London. Furthermore, commercial banking practices are decentralised to an even greater extent, organised primarily through Japanese, European and American market networks. However, as Germain (1997: 103–4) suggests, the absence of a single complex of governance has not realised the complete fragmentation in the management of credit practices that might have been expected. The fragmentary tendencies of decentralisation have been offset by the development of the transnational market networks of so-called global banks. Such networks are facilitated by information and communications technologies that enable co-ordination and control through an infrastructure of monitors and modems. Functional as opposed to national divisions within market networks and intra-institutional movements of capital and credit are representative of genuinely transnational management strategies.

The unique transnationalisation of market authority in the governance of contemporary credit practices would not have been feasible without accompanying multilateral initiatives. State-based governance that performs regulatory and crisis management roles has also come to take an unprecedented form. Such multilateral initiatives have not been a functional inevitability that has followed necessarily from the transnationalisation of market networks, but have reflected two developments. First, the major crises and high-profile failures of market institutions that have punctuated contemporary world finance have generated expedient collective responses from politicians, bureaucrats and financiers. Alongside immediate management initiatives to prevent crises from descending into world financial collapse, these responses have also entailed regulatory initiatives aimed at forestalling future crises (Helleiner 1994: 169–71). Second, multilateral initiatives in the wake of crises have reflected a key structural change in the wider world order, that is, the internationalisation of the state (Cox 1987: 253–67; Baker 1999). While part and parcel of the contemporary de-territorialisation of inter-state rivalry in the sense of adjusting state policies and institutions to perceived competitive imperatives, the newly internationalised state has, as the counterpart to transnational production and financial networks, also become drawn into multilateral agreements and institutions to a greater extent.

The management of financial crises during the Dutch and British financial orders hinged on the lender of last resort facilities provided by the Exchange Bank and Bank of England respectively, in conjunction with their contiguous market networks and ad hoc co-operation from the other principal central banks. While similar ad hoc co-operative crisis management by central banks has also marked the
contemporary financial order; this has been accompanied by multilateralism undertaken under the auspices of the IMF. To date and by virtue of disproportionately placing the burden of post-crisis obligations on debtors rather than lenders, these unparalleled arrangements have ensured that superficial fluctuations to credit practices emanating from successive crises have not led to the structural dislocation and disruption of world finance. The position of the IMF in crisis management was established following its role in the debt crisis of the early 1980s. This constituted ‘a profound transformation’ (Pauly 1997: 99) from the role of providing short-term offsetting finance that the IMF had previously played in the American financial order. Such a transformation was enabled by the expansion of the IMF’s mandate throughout the 1970s to include the surveillance of obligations arising from world credit practices (Pauly 1997: 116–17). Contrary to the view of Strange (1998a: 163–9), the IMF in itself has not simply become the world’s lender of last resort. Responses to the debt crisis, the Mexican peso crisis of 1994–5, and most recently the Asian, Russian and Brazilian crises have tended to follow a similar pattern. The IMF, backed by the resources of the principal central banks, provides short-term bridging loans to forestall default, prescribes the policies of the ‘Washington consensus’ as the *quid pro quo* for assistance, and organises the rescheduling of outstanding obligations. As Pauly (1997: 100) recognises, the IMF has been transformed into a ‘ready-made apparatus’ for institutionalised multilateral crisis management.

Multilateral initiatives in world financial regulation and supervision began following the panic created by the losses sustained in the Eurocurrency markets by the Franklin National Bank and Bank I.D Herstatt in 1974 (Frieden 1987: 117–19). Under the auspices of the BIS, the Basle Committee on Banking Supervision was formed, comprising officials from the relevant state and civil institutions of the G-10 states (Porter 1993: 56–7; Underhill 1997b: 23). The result was the Basle Concordat of 1975. This established the responsibilities of ‘home’ and ‘host’ national regulatory and supervisory institutions with regard to the world credit practices organised through commercial banking networks (Porter 1993: 58–9; Underhill 1997b: 25–6). The Concordat was subsequently revised in 1983, following the Banco D’Ambrosiano affair, placing greater responsibility with ‘home’ regulatory and supervisory institutions (Porter 1993: 59–60; Underhill 1997b: 26–7). Multilateral co-operation regarding world-scale banking practices was furthered through the 1988 Basle Capital Adequacy Accord which established minimum capital base requirements for commercial banks (Porter 1993: 61–5; Underhill 1997b: 28–30). Kapstein (1996: 6) interprets the 1988 Accord as ‘the cornerstone of international financial regulation’, accepted by regulators and banks well beyond the G-7. However, more recent BIS-centred initiatives cast doubt on the continued centrality of the Accord. In April 1997 the BIS issued a directive entitled *25 Core Principles of Effective Banking Supervision* (known as the Basle Core Principles). Developed by the Basle Committee in conjunction with regulatory and supervisory bodies from fifteen of the so-called emerging markets, the Core Principles revealed that the BIS has ‘virtually thrown in the towel on capital adequacy reserves’ (Strange 1998a: 161). With the Core Principles, the emphasis
has shifted from regulation to the supervision of self-regulation. Capital adequacy is now complemented by the monitoring of the risk management procedures of banks themselves that have increasingly gained credence among regulators during the 1990s (Underhill 1997b: 37–8; Roberts 1998: 120).

Current procedures reflect the fundamental proposition that financial risk is most effectively managed by those who are exposed to it, and consequently exposed to failure. It is not the task of the financial regulator to coach firms in the management of risk, still less to dictate or even run the firm’s risk management function. Instead, the role of the regulator is constantly to examine the firm’s risk management procedures, to pronounce on their broad adequacy, and encourage development of the best practices within firms.

(Eatwell and Taylor 2000: 41)

In sum, BIS-centred multilateralism has not led to legally binding international agreements, but to the establishment of minimum standards or codes of conduct for self-regulation and supervision designed to ensure the soundness of credit practices institutionalised in market networks.

In the wake of the 1987 world stock market crash and through the forum provided by the International Organisation of Securities Commissions (IOSCO), national regulatory and supervisory institutions framing world capital and equity market practices came together (Helleiner 1994: 186). Led by the US SEC through bilateral agreements called ‘Memoranda of Understanding’ (MOUs), regulatory and supervisory institutions have developed information sharing agreements to assist their activities (Porter 1993: 112–17; Underhill 1997b: 32–3). At the same time, efforts were made to establish minimum standards for capital adequacy for securities firms. Agreement proved more difficult to achieve than in banking, compounded by the complexities of measuring market risk and the resulting discord surrounding the appropriate formula for calculating an adequate capital base (Porter 1993: 118–19; Underhill 1997a: 33–5).17 However, in 1997 the IOSCO published its Principles and Objectives of Financial Regulation. Endorsed by its worldwide membership in 1998, the IOSCO’s Principles mirrored the Core Principles for banking practices developed by the BIS. Meanwhile and similarly, during the latter half of the 1990s a grouping of the regulatory institutions responsible for the world’s main futures exchanges have committed themselves to information sharing and developed standards of ‘best practice’ for futures contracts and their supervision (Picciotto and Haines 1999: 367).

The market-reinforcing nature of IOSCO-centred multilateral initiatives has involved a restructuring of national regulatory institutions themselves.18 Diverse national institutions are less likely to display command and control regulatory relations with their ‘home’ market networks in the first instance, concentrating instead on supervision. Rooted in the world-wide diffusion of the ‘investor-oriented’ practices of the US SEC, this change in emphasis has also been associated with the ‘codification, institutionalisation and juridification’ (Moran 1991) of previous arrangements.19 For instance, the MOUs signed by securities regulators are
widely recognised to have encouraged state regulatory institutions to take up some of the responsibilities for regulation (e.g. disclosure, insider trading, issuing) which in many cases previously resided with stock exchanges as civil institutions (Vogel 1996; Lütz 1997). Such change in the regulation of securities practices has also been engendered by the shift from trading floors to electronic trading platforms and the intensified competition between stock exchanges (cf. Budd 1995). This, in turn, does raise questions as to whether the traditional governance role of stock exchanges is undergoing transformation. The move from membership organisation to publicly listed company is currently either being carried out or considered by the TSE, NYSE and LSE. Mergers between exchanges, such as the high profile failure of the LSE and Deutsche Börse to come together to create the strangely named ‘iX – international exchanges’, are also being considered. These developments suggest a ‘squeeze’ on the modern governance remit of exchanges from state-based supervision of market-reinforcing regulation on the one hand and market authority on the other. There may be a sense in which, under the influence of neo-liberal organisational principles of governance, stock exchanges are becoming less like civil institutions and more like co-ordination services firms.20 However, even as publicly listed companies, the principal exchanges still hold discrete competencies which, by their nature, distinguish exchanges from investment banks and institutional investors in the formal governance of world credit practices.

New international financial architecture

The largely unpredicted financial bankruptcies and currency de-valuations of the Asian crisis, quickly followed by the Russian and Brazilian debacles, acted as a wake up call to the transnational financial community. Politicians, bureaucrats and the popular press at the time all voiced the opinion that, without a response, the crises could develop into a world economic crisis reminiscent of the Great Depression. The sharp downturn in New York and London’s securities markets in October 1998 seemed to give even greater credence to their pessimism. The response to the crises of the late 1990s entailed not just another round of management and rescue packages organised through the IMF, but also a broad range of initiatives that have taken complex multilateralism in financial governance further. Not surprisingly given the forging of relative stability around neo-liberal organisational principles, the key assumption binding together the initiatives has been that ‘global finance’ will benefit the world economy as a whole once the frequency and scale of financial crises is reduced. The initiatives have collectively been referred to by those involved as the process of building a ‘new international financial architecture’. The use of the ‘architecture’ metaphor engenders strategic and planned overtones that are somewhat misleading, while the claim to newness also obscures the extent to which change has been incremental. Four main related planks of these recent multilateral initiatives are, however, discernible. The first three planks – strengthening national financial systems, advancing transparency in order to enable market discipline, and responsibility for and the management of crises – correspond to the G-22 (latterly G-20) working groups formed in April
1998. The fourth main plank is the overarching effort to bring a greater level of co-ordination to the various aspects of financial multilateralism.

Multilateral initiatives to strengthen national financial systems under the guise of the new international financial architecture have followed directly from the focus on domestic institutional factors by the neo-liberal explanation of the Asian crisis. Two sets of actions are perceived to be necessary to address institutional deficiencies. First, the market institutions of the G-20 economies should implement common self-regulatory standards and codes of conduct that establish the benchmark for ‘best practice’. In addition to the Principles for banking and securities practices already developed by the BIS and IOSCO respectively, these standards include data dissemination, fiscal and monetary policy transparency, payments and settlement, accounting and auditing, corporate governance, and insolvency regimes (IMF and World Bank 2000). At the same time, the development of new standards has been accompanied by the updating of existing standards. For instance, in January 2001 the BIS began the process of revising the 1988 Capital Accord. While retaining the overall capital adequacy target of 8 per cent set in the original Accord, revision is focusing upon the use of banks’ own internal control and risk management procedures to calculate capital levels (BIS 2001). In short, the new Accord due at the end of 2001 reinforces the shift to self-regulation signalled by the 1997 Core Principles. Second, the IMF, World Bank and regional development banks are taking on a supervisory role to monitor the implementation of self-regulatory standards (Key 1999: 71–2). Particularly as a result of the expansion of the surveillance remit of the IMF’s Article IV, recent years have seen the Fund conduct a series of case study reports on members’ observance of standards. More broadly and in co-operation with the World Bank, the IMF has undertaken experimental Reports on the Observance of Standards and Codes (ROSCs) (IMF and World Bank 2000). Such supervisory initiatives effectively involve not the direct monitoring of adherence to standards by financial market and corporate institutions, but monitoring national supervisory institutions, that is, supervising the supervisors.

The second main plank of the multilateral initiatives undertaken under the auspices of the new international financial architecture process – that is, furthering transparency – has also followed from the neo-liberal discourse of governance and associated explanations of major crises. Underpinning the call for enhanced transparency is the neo-liberal belief that uncertainties surrounding the availability, reliability and comparability of market information distort financial market participants’ decision-making, leading to deficiencies and volatility (cf. IMF 2001: 5). In short, governance by the market mechanism is reliant upon as perfect as possible information. The call for greater transparency has combined a desire for the increased disclosure of data by financial market institutions and corporations according to recognised accounting standards and procedures; improved openness of state fiscal and monetary policy-making; and less secrecy concerning the operations of the IMF and World Bank (IMF 1998b).

The third main plank of the new international financial architecture process has been the bolstering of the capacity of existing international institutions, most
notably the IMF, to act as forums for crisis-management. This initiative has focused not on the transformation of the IMF into a world-scale lender of last resort, but on reinforcing the legitimacy of the IMF’s policy prescriptions while at the same time making further resources available. Buttressing the role of the IMF in the contemporary structure of financial governance became a particularly pressing task against a backdrop of some considerable debate about its standing (cf. Leaver and Seabrooke 2000). In a speech delivered to the NYSE in September 1998, British Prime Minister Tony Blair gave an indication of the direction of change:

The banking systems of individual countries are typically supported by a lender of last resort. The IMF does not and cannot play this role – the finance it provides is strictly limited and is usually provided in return for specific policy demands negotiated over a period of time. But it is vital that the international financial community has the means to respond effectively to acute short-term liquidity crises, particularly those caused by a generalised loss of market confidence rather than economic policy failures in the countries concerned. This may require us to look imaginatively at the funding needed to support IMF programmes, without in any way undermining the incentive countries have to pursue sound policies.22

Enhancing the legitimacy of the IMF has hinged on the replacement of its long-standing Interim Committee with a new International Monetary and Financial Committee that, unlike its predecessor, allows all member state governments to raise issues concerning the operations of the Fund that they see fit (Germain 2000). Meanwhile, the IMF has gained new resources in the form of Contingent Credit Lines. These are designed to provide the Fund with resources ahead of a crisis, rather than waiting for co-operative central bank action and political agreement in the wake of crises. The Contingent Credit Lines are to be used to lend pre-emptively to help prevent crises, particularly the spread of an existing crisis to a state-society that is adjudged to have sound ‘macroeconomic fundamentals’.

The final plank of the new international financial architecture has been the creation of the Financial Stability Forum (FSF) in February 1999. The FSF evolved from proposals made by British Chancellor of the Exchequer Gordon Brown in the autumn of 1998, carried forward under the leadership of Bundesbank President Hans Tietmeyer. Based at the BIS, the FSF is not so much another inter-state financial governance forum, but an attempt to bring some overarching strategic co-ordination to the existing multilateral initiatives (Eatwell and Taylor 2000: xiii). The membership of the Forum includes the regulators, treasury officials and central bankers of the G-7 states, their peers from other states deemed to be structurally significant in the contemporary financial order (the Netherlands, Hong Kong, Singapore, and Australia), and representatives from the other existing international institutions. The Forum provides a mechanism for planning co-operative ventures. These include, for instance, those involving BIS, IMF and World Bank personnel in an institute to train and provide technical assistance to national supervisory authorities, and the efforts to further the standards setting process.23
Tensions of transnational multilateralism

Despite the further entrenchment of transnational multilateralism under the banner of the new international financial architecture and in contrast to the view of IPE scholars such as Kapstein (1996) who cast contemporary world finance as ‘shockproof’, serious question marks remain as to the adequacy of the current structure of governance. To begin with, the capacity of the structure of governance to reproduce the contemporary financial order is not simply assured in a functional manner. While there may be neo-liberal agreement as to the appropriate organisation of credit practices among the principal state and social forces that constitute the transnational financial community, complex multilateralism continues to rest upon on-going co-operation. The principal institutional forums such as the BIS, IMF and FSA cannot operate independently of negotiations among the coalition of forces. For instance, Andrew Crocket, BIS General Manager since 1994, describes the BIS as ‘less an organisation than a process’.24 Similarly, the IMF lacks autonomy from the major states in decision-making (Strange 1996: 167–8; Pauly 1997: 99). Particularistic interests cut across the transnational financial community, ensuring that ‘conflict over regulatory and supervisory issues remains endemic even where there are well-developed institutions to deal with these matters’ (Underhill 1997d: 314).

Furthermore and related, recent efforts to advance the so-called new international financial architecture have also highlighted tensions in the structure of governance engendered by the narrowness of the coalition of forces involved. Contemporary credit practices have come to entail an uneven yet expanding spatial scale. A legitimate and functioning structure of governance therefore increasingly rests upon co-operation that is more inclusive, incorporating the financiers, market institutions and relevant state agencies from the so-called emerging markets. The creation of the G-20 working groups, including representatives from Argentina, Brazil, China, India, Indonesia, Mexico, Russia and Turkey, and the replacement of the IMF’s Interim Committee with the new International Monetary and Financial Committee may both go some way to enabling a more inclusive form of co-operation (Germain 2000). This may further the legitimacy of the structure of governance. However, considerable barriers to inclusive forms of co-operation remain whilst the discourse of neo-liberal governance holds sway. Most notably and reflecting the depression experiences of those already subject to IMF conditionality (cf. Krugman 1999), the adjustment of socio-economic relations and state policies in the emerging markets to the perceived economistic exigencies of world credit practices in line with the neo-liberal Washington consensus is likely to perpetuate underdevelopment. The forging of relative stability and acceptance of the contemporary organisation of credit practices as legitimate among a broad coalition of state and societal forces would, then, appear likely to necessitate a reconstitution of the structure of governance based upon organisational principles other than those of neo-liberalism.

The capacity of the structure of governance to reproduce the contemporary financial order is also undermined by significant gaps between the rhetoric and reality of complex multilateralism. In a simple sense, such ‘reality gaps’ are largely
a consequence of shortfalls and snags in the implementation of multilateral initiatives. Many commentators have complained that regulatory and supervisory provisions still lag behind the pace of innovation in credit practices institutionalised in transnational market networks (e.g. Picciotto and Haines 1999). Similarly and despite the renovation of the IMF as part of the new international financial architecture process, ‘the institutions and mechanisms of crisis management . . . do not yet match the increased systemic risk inherent in the unwieldy financial order’ (Underhill 1997d: 315). Major financial crises increasingly demand larger rescue packages and more rapid management responses and, as Pauly (1997: 141) observes, the IMF remains ‘a coping mechanism, not a solving mechanism’. Meanwhile, the implementation of already established standards of ‘best practice’ is far from assured. The strengthening of the national financial arrangements of the emerging markets continues to be a key task of the new international architecture process. Perhaps more importantly, the regulators of many of the world’s offshore centres and tax havens remain outside complex multilateral initiatives and, as a consequence, are in many instances exempt from the implementation of standards of ‘best practice’. The shortfall in implementation is not, however, confined to the financial institutions of the emerging markets or offshore centres. For instance, the current revision of the Basle Capital Accord looks rather hollow while the up-take of existing standards by Japanese banks remains in question. Japanese banks continue to take advantage of a concession included in the 1988 Accord that permitted them to include securities valued at cost of acquisition rather than current market price in their capital adequacy calculations (Lapavitsas 1997: 36). Given the massive downturn in the Nikkei 225 index since the collapse of the bubble economy, very grave doubts are cast on the solvency of some of the world’s largest financial market institutions.

The gaps between the rhetoric and reality of the structure of governance also go to the very heart of the contemporary financial order. Informed by the neo-liberal discourse of governance, complex multilateralism initiatives have reinforced the role of the principal transnational market institutions in the organisation of credit practices and increasingly limited state institutions to supervisory and crisis-management roles. As such, the management and administration of credit practices is de-politicised and largely reduced to a purely technical question to be determined by the market mechanism. Yet, as we have shown, inherent to the contemporary marketisation of credit practices has been securitisation and financialisation. Multilateral initiatives currently place great faith in the capacity of securitisation, and particularly derivatives practices, to manage risks arising from price fluctuations. As Strange (1986: 116–19) makes plain, however, risk-adverse derivatives practices have, far from reducing perceived risks, collectively increased systemic uncertainty and price volatility. Meanwhile, financialisation entails a contradiction between speculative credit practices and the real economy that, taking different forms in specific instances, lies at the roots of contemporary systemic financial crises. The reality of the market-reinforcing multilateralism is that it serves only to perpetuate a highly speculative, uncertain and contradictory order that, like a punch-drunk boxer, necessarily lurches from one major crisis to another.
Conclusions

Framed by an Historical IPE approach and informed by comparative inquiry across previous modern world financial orders, we have sought to ask whether the contemporary order is characterised by relative stability, to account for the major crises that have marked the order, and to analyse the formal institutions of governance that contribute the order’s reproduction through the management of credit practices. Decentralisation between New York, London and Tokyo has not proved to be a structural impediment to the forging of emerging relative stability in the contemporary financial order. While no single WFC stands as a complex of governance as had been the case in previous world financial orders, the power relations and credit practices of contemporary world finance are accepted as legitimate. The social forces of both New York and London have been to the fore in the forging of relative stability, based upon neo-liberal organisational principles of governance and grounded in epistemic authority itself derived from the competitive success of Anglo-American market institutions. Important in this respect has been the manner in which dominant explanations of the Asian crisis have served to dispel any remaining doubts as to the competitive weakness of Japanese finance, thereby undermining potential and actual objections to the neo-liberal organisation of credit practices. In terms of the interweaving of the coalition of state and social forces involved, relative stability does, however, remain narrow and somewhat fragile. The neo-liberal acceptance of the contemporary financial order is limited, in the main, to the transnational financial community that share a rather minimal perceived interest in preventing its collapse. Contestation as to the appropriate organisation of credit practices in any elemental sense becomes marginalised by a governance discourse that, through the reification of the market mechanism as the rational and natural institutional loci for governance, obscures the subjective, collective, hierarchical and speculative nature of contemporary practices.

Given their importance as moments in the reproduction or otherwise of world financial orders, it is not surprising that the orthodox explanation of the major crises that have dogged contemporary world finance concurs with the forging of relative stability around neo-liberal organisational principles. Misguided domestic policies and/or institutional arrangements are held to have been the principal causal factors in all major crises, viewed as hampering the capacity of marketised world credit practices to rationally determine exchange rates and recycle capital. Yet contrary to this orthodoxy, contemporary crises can be understood as the immediate outcome of shifts in the collective market sentiment that frames world credit practices. As such, contemporary crises do not essentially depart from the pattern of speculative excess, distress, panic and crash that, driven by changes to shared meanings, have marked financial crises throughout modern world finance. The conjunctural distinctiveness of current crises is grounded in the financialisation of contemporary credit practices. The high frequency of crises reflects financialisation, as the speculative accumulation of capital through credit practices themselves rests upon perceptions of on-going and successive opportunities presented by one type of asset or another. Meanwhile, financialisation also entails a
highly significant structural contradiction that lies at the roots of major financial crises. Social, political and institutional embedded forces ensure that the real economy is not able to consistently meet those obligations, arising from speculative world credit practices, which assume the commodification of socio-economic relations. Appearing differently in specific crises, the contradiction surfaces and becomes realised in the distress and panic of collective market sentiment.

In the absence of a single WFC as a complex of governance, the current formal reproduction of world finance has no single fulcrum but takes largely unprecedented institutional forms. The present growth of market authority reflects and rests upon neo-liberal organisational principles of governance. It also contrasts sharply with the state-based governance of the American financial order and is suggestive of several parallels with the Dutch and British orders. What differentiates the current formal governance arrangements in world finance are the unparalleled developments that we have termed transnational multilateralism. A fragmentation in the management of credit practices that might have been expected to accompany decentralisation has failed to materialise, compensated for by the transnationalisation of the hierarchical market institutional networks that are anchored across the world’s financial centres. Interdependent with this transnationalisation are complex multilateral initiatives in regulation and crisis management. Such initiatives, often taken in the wake of major crises and the high-profile failures of market institutions, are broader in scope and institutionalised to a greater degree than the ad hoc inter-state co-operation that contributed to the structure of governance in the Dutch and British financial orders. The market-reinforcing standards for self-regulation and supervision and the IMF-centred crisis-management arrangements that have emerged from complex multilateral initiatives have been further entrenched recently with the construction of the so-called new international financial architecture.

The foregoing understanding of relative stability, crises and authority in contemporary world finance illustrates the utility of the notion of a structure of governance for facilitating consideration of the propensity for financial orders to be reproduced. Attention is drawn to the intersection of the informal and formal or epistemic and institutional aspects of social relationships of authority, the standing of WFCs as complexes of governance, and the manner in which authority relationships relate to the underlying structure of power and the organisation of credit practices. Four significant differences mark out our analysis from current IPE inquiry.

First and as with our inquiry across previous social orders, relative stability has been used not to mean the absence of volatility in price and capital movements, but in social and political terms as indicating acceptance of power relations and the organisation of credit practices in which they are manifest. The effect is to offer a diachronic as opposed to synchronic understanding of stability. Such an understanding enables us to account for the reproduction of contemporary world finance in political as well as technical-functional terms.

Second, much of the current IPE inquiry represents contemporary world financial governance as a victory for the authority of market institutions over state
institutions. While not denying this shift in the governance responsibilities of state and market, we have suggested that new forms of transnational market authority have been interdependent with complex multilateral initiatives in regulation and crisis management.

Third, our incorporation of WFCs as complexes of governance in the analysis of the reproduction of world finance has realised some important insights into the contemporary financial order. Grounded in the perceived competitive success of their market institutions, the epistemic authority of the social forces of New York and London can be seen to have placed them at the fore in the forging of relative stability. At the same time, the historically unparalleled absence of a single complex of governance in the relatively stable contemporary financial order provides the principal conjunctural structural conditions that have framed the emergence of the institutions of transnational multilateralism.

Finally, our account suggests that, as it is currently constituted, the contemporary financial order is fragile and beset with significant contradictions and tensions. Contrary to the interpretations offered by mainstream economists and orthodox IPE scholars in particular, increased multilateral co-operation perpetuates rather than alleviates the volatility and inherent crisis-tendencies of contemporary world finance.

Notes

1 This is not to say that relative stability has emerged throughout the wider world order on the basis of neo-liberal principles of governance. For instance, in terms of the environment, there is extensive contestation as to the appropriate organisation of social practices. Considerable disagreement continues over the merits or otherwise of a neo-liberal structure of environmental governance, with proponents of an alternative liberal internationalist discourse offering a coherent alternative (Langley 2001). On the contemporary juxtaposition of neo-liberal and liberal internationalist visions of global governance, see Murphy (1994).

2 The main principles of the consensus have not gone unchallenged or remained static in recent years. For instance, the tenets of the consensus arguably expanded during the 1990s with the World Bank’s prescriptions of so-called ‘good governance’ which includes the promotion of western-style democracy, judiciary, accountability, transparency and, most ambitiously, civil society (Weiss 2000: 801). Despite these challenges and changes, neo-liberal organisational principles of financial governance remain at the heart of the consensus (Broad and Cavanagh 2000).

3 ‘According to market fundamentalism, all social activities should be looked at as transactional, contract-based relationships and valued in terms of a single common denominator, money’ (Soros 1998: xxvi).

4 An opposing view has been put forward by Higgott and Phillips (2000: 360) who argue that ‘the recent financial crises, and responses to them in Asia and Latin America, represent less the final triumph of liberalism in a post-Cold War era than a further spur to rethinking significant aspects of the neoliberal project’. However, such an interpretation would seem misleading in two important respects. First, it overstates the extent to which acceptance of the organisation of world credit practices based upon neo-liberal principles of governance included the state and societal forces of Latin America and newly-industrialising Asia in the first place. Second, as Higgott and Phillips (2000: 361) themselves note, any ‘transition is evolving rather than settled . . . contested in a range
of quarters’ and, as such, may ultimately lead in the further entrenchment of a neo-liberal structure of governance.

5 The ‘new economy’ represented a (misguided) belief that the defeat of inflationary pressures, the liberalisation and globalisation of the world economy, corporate restructuring and, most importantly, the wave of growth brought about by the information technology revolution had combined to render a cyclical economic downturn impossible. While particularly prevalent in the US in the latter half of the 1990s, reflected in the booming price levels of ‘tech-stocks’ listed on NASDAQ, the belief did spread to Europe and Japan, finding expression in the so-called ‘dot.com’ bubble. The bubble burst in mid-2000, leaving the various gurus of the new economy looking rather foolish. On the similarities between the new economy and the ‘new era ideology’ of 1920s America, see Chancellor (2000: 229–32).

6 On the relationship between everyday saving and borrowing practices and contemporary world credit practices more broadly, see Amoore and Langley (forthcoming).

7 ‘While the hyperliberal model reasserts the separation of state and economy, the alternative state form that some see as capable of renewed capitalist development promotes a fusion of state and economy. The state-capitalist path may take several forms all according to different national positions within the world economy and different institutional structures and ideologies. The common thread lies in a recognition of the indispensable guiding role of the state in the development of the nation’s productive forces’ (Cox 1991/1996: 201).

8 <www.nyse.com/speech/NT00019962.html>

9 Not surprisingly, the response from orthodox circles to such an understanding has been to reassert the rationality of the market mechanism. For instance, this was apparent in the comments made by US Federal Reserve Chairman Alan Greenspan to the US House of Representatives in the wake of the 1998 failure and bailout of LTCM (de Goede 2001: 161–2). Greenspan voiced the belief that arbitrage practices were not subjective speculation, but the rational pursuit of asset prices that temporarily did not reflect ‘fundamental values’ and, therefore, contributed to the determination of prices and make it possible for the market to clear.

10 On the role of secondary trading practices in preventing ‘back sliding’, that is, a deviation by states or corporations from economistic criteria, I am indebted to the insights provided by a former IMF economist, confidential interview, London, 3 June 1998.


13 An important caveat must be added to the view that the authority of central banks has declined in the contemporary financial order. The loss of authority vis-à-vis market institutions has been partially offset by the new found ‘independence’ of central banks from state finance ministries, a unique position from which they legitimately seek to guarantee sound money and price stability (Maxfield 1997b; Dyson et al. 1998).

14 Open market operations are concerned with the manipulation of liquidity in response to monetary policy targets. As Germain (1997: 153) summarises, ‘If a central bank is concerned with an over hasty expansion of the money supply, it sells government bonds from within its own portfolio, thereby reducing the immediately available funds which banks and other financial sector firms have to lend to their clients. To pump liquidity into the system, a central bank need only to buy discounted bonds offered on the market (or encourage them to be put up for sale), thereby increasing the availability of cash to monetary agents for lending and other uses’.

15 Since 1975, the annual meetings of the G-7 heads of state have been an important mechanism for efforts to strategically manage the world economy, especially through the co-ordination of macroeconomic policies. The G-7 state-societies are America, UK, Japan, Germany, France, Canada and Italy. They were joined by Russia in 1998 to form
the G-8. Since the early 1980s and alongside the annual meetings, central bank and treasury officials have met regularly to address financial and monetary issues.

16 ‘Multilateralism’ has been used in a state-centric manner by orthodox IPE scholars that favour a liberal institutionalist approach to refer to ‘the practice of co-ordinating national policies in groups of three or more states, through ad hoc arrangements or by means of institutions’ (Keohane 1990, in Cox 1997: xvii). Although adding a concern with norms and organisational principles, this state-centricism is maintained by constructivist approaches. For instance, Ruggie (1993: 11 [my emphasis]) casts multilateralism as ‘an institutional form that co-ordinates relations among three or more states on the basis on generalized principles of conduct’. Such state-centric notions are inadequate in the current era of transnational relations (cf. Risse-Kappen 1995), where civil associations such as the International Primary Market Association, the International Securities Markets Association, and the International Federation of Stock Exchanges occupy governance roles (Filipović 1997). The notion of complex multilateralism is clearly an attempt to capture the distinctive practices of contemporary global governance. Furthermore, my notion of ‘transnational multilateralism’ reflects a concern not simply with the changing practices of multilateralism, but with the interdependent relationships between these and changes to market institutions in the structure of financial governance.

17 ‘Capital adequacy for securities firms is similar in principle to capital reserves for international banks, but there are important differences. For banks, the main concern is with the creditworthiness of their loan portfolios and clients, and off-balance sheet activities are converted into the equivalent of loan risks according to the Basle Accord. In contrast, for the most part risk in the securities sector is related to the firm’s position in the market, called “position” or “market risk”’ (Underhill 1997b: 33). Such ‘positions’ in the market result from securities firms holding their own portfolio of equities that are subject to price fluctuations.

18 On this point I am indebted to the insights provided by a representative of the British Bankers’ Association, confidential interview, London, 3 June 1998.

19 Despite restructuring, national regulatory institutions remain remarkably diverse. For instance, after several periods of reform in the contemporary era, the UK arrived at the creation of a single regulatory body in 2000, the Financial Services Authority (FSA). This contrasts with the tendency in Europe for a separate institution to regulate capital and equity market practices, such as the French Commission des Bourses (COB).

20 For more on this distinction, see Chapter 2, note 3.

21 Organised under the auspices of the regular meetings of the G-7 finance ministers, the G-20 brings together finance ministers and central bankers from Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea and Turkey, together with their G-7 counterparts and a peer from the European Union. The reports produced by the G-20 are available from the IMF website.

22 <www.nyse.com/speech/NT00019962.html>

23 <www.fsforum.org>