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***‘Re-thinking Capital Mobility,  
Re-regulating Financial Markets’***

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*Introduction: Capital mobility, globalisation and the 'end of geography'*

The globalisation hypothesis has altered many of the common-sense 'truths' around which the social world is organised.\* In particular, globalisation is thought to restrict the parameters of the politically and economically possible. Indeed, the notion of constrained choice is so pronounced that we are increasingly confronted with the image of globalisation's 'logic of no alternative'; an image which is predicated on the assumption of perfect capital mobility. Capital is considered to be sufficiently rational to take advantage of enhanced exit options from the national economy in circumstances in which its interests are served by moving off-shore. Moreover, global markets are also assumed to have exploited contemporary technological developments to such an extent that they now clear instantaneously; consequently, allowing capital to further its interests wherever in the world new profit opportunities arise. Thus, we are presented with the fundamental 'reality' of globalisation as currently narrated throughout much of the west: unless the market can be allowed to restore a competitive global equilibrium, capital will exit high-wage, high-cost western economies and re-locate in lower-wage, lower-cost, newly industrialising economies. Under the auspices of ever more hostile wage competition from the newly industrialising economies, globalisation is commonly presumed to act as a trigger for an 'inevitable' job displacement effect as capital deserts the advanced industrialised economies.

Capital mobility is thus most frequently thought of in *spatial* terms. Capital's rational profit-seeking instincts drive it away from high-cost national economies and re-direct it

towards lower-cost locations. Such an image has subsequently been used to discipline the claims of a western labour force which is relatively static in relation to capital's new hyper-mobility.<sup>1</sup> Whilst labour tends to be locked via socialisation processes into distinct national economic spaces, the globalisation of capital markets is assumed to be eroding the ability of national states to regulate such spaces as a means of imposing a similarly distinct national identity upon capital. The physical barriers between national economies are now assumed to mean little in the face of hyper-mobile capital. Moreover, the statutory barriers between national economies have been relaxed as capital controls have been systematically withdrawn. It is assumed that we no longer live in a world in which there can be an institutionalised set of rules capable of holding in check the restlessness of the capital markets. In short, geography is commonly thought to be an ever more marginal constraint on the activity of capital. As Richard O'Brien argues, capital flows can no longer be condensed within 'specific geographical frameworks such as the nation-state or other typical regulatory jurisdictional territories'.<sup>2</sup>

Globalisation is thus assumed to introduce a qualitatively new understanding of social space: a spatiality from which the concepts of distance and territory have been abstracted. Unlike its predecessors, the new global regime of capitalist accumulation is released from the constraints of territory which once were imposed by discrete and autonomously acting national states. As a consequence, expanded accumulation is no longer reliant on a social structure which is centred on, and embedded within, national social and political formations. According to Jan Aart Scholte, social, political and economic relations are now played out on 'a "supraterritorial" plane'. 'Global relations are not links *at a*

*distance* across territory but circumstances *without distance* and relatively disconnected from particular location.’<sup>3</sup> Furthermore, an accelerating power asymmetry is assumed to have emerged between: on the one hand, governments which are locked into a specific geographical structure - their own national territory; and, on another, global capital markets which operate at a higher level of abstract spatiality - the ‘supraterritorial’. Viewed through the perspective of an increasing powerlessness of the state, we see the emergence of the central claim of the globalisation hypothesis. With reference to economic policy in particular, national states are now typically thought to have little capacity to act autonomously. As a reflection of the ‘inevitable logic of globalisation’, the new conventional wisdom of contemporary public policy assumes that the focus of economic policy-making has been displaced from the national state into global markets.

It is plain to see, therefore, that a whole host of political consequences will emerge from the formulation of knowledge about globalisation. Hence, it is imperative that such knowledge is based on accurate understandings of the global system, and of the economic transformations which are said to have been instrumental in the creation of such a system. The remainder of this paper concentrates on arguably the most important aspect of these transformations: capital’s supposed ‘hyper-mobility’. In order to examine the relationship between the mobility of capital and the politics of globalisation, two distinctions in particular will be emphasised. The first is relatively well-rehearsed within the IPE literature and concerns the distinction between *productive* capitals and *financial* capitals. It will be shown that these different fractions of capital have conceptually distinct functions and logics of action; moreover, that such logics cohere into very

different mobility options. For example, the following section of the paper concentrates on the mobility of *productive* capitals. For these capitals, the reality of international capital flows does little to sustain the rhetoric of globalisation. Indeed, far from productive interests using a new-found mobility to establish a truly global circuit of capital, the available empirical evidence highlights that these interests have retained an essentially national identity.

Furthermore, such a conclusion appears to hold not only in relation to the mobility of productive capitals. In the second section of the paper, it is argued that the mobility of *financial* capitals is also routinely over-stated. Given that the spatial mobility hypothesis is a gross exaggeration of the reality of contemporary capital flows, it is necessary to dispute the assumption that economic globalisation implies a political logic of no alternative. Insofar as policy alternatives are circumscribed *at all* by the current structure of the international political economy of finance, this is the result of the distinctively neo-liberal financial regime which has been created as a consequence of prior political interventions. In relaxing previously institutionalised controls on the short-term movement of financial funds, this neo-liberal regime has facilitated new opportunities for realising profit through trading short-term financial assets. As a result, an increasing proportion of available capital funds are being directed towards *financial* markets; the corollary of which is an emergent tendency towards capital shortage in *productive* sectors. A clear disparity now exists between the volume of funds being prepared for productive purposes and those being prepared for non-productive purposes. However, and despite the claims of contemporary conventional wisdoms, the heightened incidence

of productive capital shortage is not to be explained with reference to any ‘logic’ of globalisation, which sees capital depart the high-wage, high-cost locations of the west in search of lower-cost locations on the industrialising periphery. In short, productive capital shortage is not to be explained with reference to arguments about the *spatial* mobility of capital. Instead, it is the result of the current global neo-liberal financial regime providing a range of incentives for rationally-acting, profit-seeking capital investors to concentrate an ever larger proportion of their investments in financial assets. Thus, the dynamics of productive capital shortage are to be understood in relation to arguments about the *functional* mobility of capital.

The heuristic distinction between the *spatial mobility of capital* and the *functional mobility of capital* is the second such distinction to be emphasised throughout this paper. Whilst the existing IPE literature tends to concentrate on the political implications of capital’s *spatial* mobility, this paper will focus in its later sections on capital’s *functional* mobility. Indeed, the case for re-regulating both the global financial markets [see section two] and the financial futures markets [see section three] is made with direct reference to the functional mobility of capital. Given that the confines of space within which the paper is written do not allow for a detailed policy proposal to be presented, the paper emphasises instead the *principles* (both economic and political) which would inform a policy of re-regulation.

The desire to address the increasing incidence of productive capital shortage in the west lies at the heart of policy proposals to re-regulate the global financial markets. With this

end in mind, James Tobin, for example, has introduced proposals for an international currency transactions tax which aims to reduce the volatility of financial prices and restore some semblance of stability to domestic interest rates and exchange rates.<sup>4</sup> The creation of a highly liberalised global financial environment has, over the past twenty years, triggered a quite dramatic shift in the liquidity preferences of capital holders. Short-term financial assets can now be traded in the virtual absence of transactions costs. This has allowed investors to take up certain speculative positions which are capable of satisfying high liquidity demands. As such, the increasingly ‘costless’ nature of financial trading has offered sufficient incentives for investors to liquidate long-term productive assets in order to release more funds for financial investments. Moreover, these new flows of financial funds are frequently deployed to speculate against forward movements in interest and exchange rates; consequently, injecting new sources of instability into these rates. This in turn acts as a further disincentive to invest in new productive capacity and, hence, exacerbates what are now the significant capacity shortfalls visible in productive sectors visible throughout much of the west. Whilst this briefest of sketches of a Tobin-style tax suggests that its imposition would be driven by an essential *economic* logic, arguments for currency transactions taxes are just as much *political* arguments as they are economic arguments. As such, it is to the political implications of re-regulating financial markets that the paper turns in the concluding section.

It is in this sense, more than any other, that the ‘P’ is being put back into IPE: in this case, through the attempt to repoliticise the dominant discourse of globalisation by replacing the received wisdom of capital’s *spatial* mobility with an understanding of capital’s

*functional* mobility. The conventional focus on spatial mobility is rooted in the marginalist paradigm of neo-classical economics. This suggests that an autonomous sphere of market relations governs the locational decisions of firms in line with implicit cost/benefit analyses. Insofar as the alternative focus on functional mobility advanced here emphasises the *political* construction of financial market relations, then, this article also represents an attempt to repoliticise orthodox western economic discourse more generally. As such, it stands in direct opposition to those who would seek to unify social scientific enquiry in a new political economy which involved the application of orthodox economic methods to the analysis of political phenomena.<sup>5</sup> By contrast, it harks back to a *pre*-marginalist political economy to the extent that it moves away from a fundamentally neo-classical analysis of the means of choosing between competing ends in conditions of scarcity - embodied, in this instance, in the 'spatial mobility' hypothesis. Instead, the image of the classical political economy of the nineteenth century, and especially of its concern for the social basis of capitalism, is invoked through the emphasis on the 'functional mobility' hypothesis.<sup>6</sup>

### *1. The internationalisation of production and the spatial mobility of capital*

With capital mobility conceived of in spatial terms, productive capital is assumed to be free to roam the world in search of the most profitable locations. As a result, globalisation is assumed to have locked national states into a competitive dynamic in which they are pitted directly one against another in the struggle for supremacy on

international markets. The globalisation hypothesis consequently comes complete with its own blueprint for future political action: wake up and shape up to the demands of global economic competition. As Joe Rogaly notes, this political blueprint is based on the perhaps paradoxical premise that, over time: ‘politics [itself] will matter less, eventually hardly at all’.<sup>7</sup> Political parties around the western world have been quick to act on this assumption, moving swiftly to dampen down expectations of what remains feasible in terms of governance strategies; and, as they do, announcing repeatedly that they simply have no choice but to reverse the welfare gains made by labour under previous accumulation regimes.

Thus, the notion of spatially-mobile capital has been used to launch attacks against existing western labour standards. Relatively unskilled western workers are being increasingly exploited as their wages are downsized ever more aggressively in the name of global competition. Capitalist class actors have therefore been able to harness the political rhetoric of globalisation to turn the material ‘reality’ of globalisation into new forms of oppression to be asserted over those with least power in society. As such, we have seen an increasing marginalisation of a significant segment of the western workforce. National states have met the demands of capitalist class actors for greater flexibility to augment their greater spatial mobility by forcibly inserting themselves into national wage relations to lower existing labour standards. Moreover, viewed through the perspective of the dominant political understanding of our times, such actions are seen as the ‘necessary’ policy response to globalisation.<sup>8</sup>

Two main objections can be raised to globalisation's 'logic of no alternative', though. The first is empirical. It focuses on the assumption that, as a reflection of the fact that *all* capital markets now clear perfectly, *productive* capital really does roam the whole globe in search of new profit opportunities. However, there is no evidence that capital markets actually do clear perfectly in this way. Indeed, the available empirical indicators tend to point to an altogether different conclusion. Almost all neo-liberal renditions of the globalisation hypothesis exaggerate the degree of de-territorialisation. It is true that certain phenomena now appear to exist at a supraterritorial level. The Internet, for example, plus the electronic mass media, global communications networks and electronically-relayed financial flows: all now transcend conventional understandings of geography. Yet this is not to say that all economic relations do likewise. As James Mittelman suggests, for instance, in terms of production relations: 'the compression of time and space is limited because flows of capital and technology *must eventually touch down in distinct places*'.<sup>9</sup>

Therefore, legitimate doubts can be raised about the extent to which *productive* capitals are mobile. Indeed, the realities of economic production suggest that the threat of co-ordinated disinvestment by these capitals is simply not credible.<sup>10</sup> For, the moment that financial assets are made concrete into productive investments, all future mobility options are severely curtailed. Moreover, the vast majority of productive investments are not made by spatially-footloose capitals, but are sourced locally. Domestic producers continue to dominate the supply of domestic consumption markets. This is amply demonstrated by the fact that, throughout the 1990s, the Triad poles of North America,

Western Europe and South-East Asia, despite being the world's major trading regions, have exported less than the equivalent of one-sixth of their respective GDPs.<sup>11</sup> Furthermore, whilst domestic consumption demands continue to be satisfied via the circuit of domestic capital, these domestic producers remain predominantly domestically owned. As Frances Fox Piven explains, for example, in relation to trading on Wall Street, supposedly the most 'open' stock exchange in the world:

Foreign investment in US stocks and bonds [may well have] risen, but in 1993 it remained only 6 per cent of US stocks, and 14 per cent of corporate bonds. And fully 95 per cent of investment by Americans remained in domestic stocks of bonds.<sup>12</sup>

Such figures are by no means atypical. In December 1989, for instance: 'US investors held 94 per cent of their stock-market wealth in their home country stocks, Japanese investors 98 per cent in home stocks, and UK investors 82 per cent'.<sup>13</sup> Contrary to the globalisation hypothesis as narrated by contemporary neo-liberals, then, productive capitals have in fact remained overwhelmingly within the borders of the national economy. Despite the common assumption that globalisation conflates with supraterritoriality, the physical barriers of territorial geography are still of intrinsic importance in terms of the location of productive investments.<sup>14</sup>

The second objection to globalisation's 'logic of no alternative' also questions the assumption that global capital markets clear perfectly. It focuses not on the *spatial* mobility of capital, however, but on its *functional* mobility. This view invites us to look past the assumption that capital mobility has the most immediate effect upon our lives

through the way in which investment flows around the world seeking new profit opportunities, leaving an ever widening track of devastation and unemployment in its wake. Instead, it suggests that we concentrate on the circuits of capital through which financial assets are made concrete into productive investments. In textbook analyses, the financial system acts to reconcile the monetary and investment subsystems of the economy. The increasing sophistication of the financial system should in theory have made this task more straightforward in recent years. Yet, at the same time as there has been a surge in activity in international financial markets, this activity has become increasingly disembodied from the real economy. The circuit of capital has become progressively more dislocated, consequently impeding productive investments. With the international financial markets devouring more and more capital in the functional form of money, an increasing number of western economies are reporting sizeable 'capacity gaps'.<sup>15</sup>

It is this dynamic, and not in any sense the 'natural laws of globalisation', which lies at the heart of the current inability of western labour markets to provide adequate levels of stable, high-quality employment. The growing casualisation and general under-utilisation of the western workforce is a direct result of the capacity shortfalls which reflect capital shortage. As such, productive capital shortage should be understood in terms of an excessive volume of resources being devoted to financial transactions. In viewing the problems of contemporary political economy in this way, it is necessary to revise some of the claims which have been made about capital mobility, especially in circumstances in which capital mobility has been conceived of purely in *spatial* terms.

For example, Mittelman's assertion that 'flows of capital and technology must eventually touch down in distinct places' has been used to argue that the spatial mobility of capital is more limited than the dominant understanding of globalisation insists. Yet this argument must now be seen through a different lens. If we choose to interpret capital mobility in *functional* terms, then we will be drawn towards the conclusion that the main concern of today's public policy-makers should be that an increasing volume of capital does not now 'touch down' *at all* - in the sense of it failing to be made concrete into productive investments. Having shifted the debate away from the question of capital's spatial mobility, it is to the question of capital's functional *immobility* that the paper now turns.

## *2. The internationalisation of financial markets and the functional immobility of money assets*

Since western governments began the indiscriminate relaxation of capital controls following the demise of the Bretton Woods settlement, the world's financial markets have become increasingly dissociated from the productive realm. As Kurt Hübner explains, financial markets no longer exist solely as a means of optimising financial portfolios; 'the money market itself has become a genuine realm for the valorisation of capital'.<sup>16</sup> As a reflection of heightened liquidity preferences amongst potential investors, an ever greater proportion of capital holdings have been switched from productive to financial assets. Consequently, an ever smaller proportion of money assets have been prepared for non-financial, or GDP, purposes.<sup>17</sup> Productive interests have

been ‘crowded out’ by financial interests to such an extent in recent years that, throughout the west, we are witness to a situation of acute productive capital shortage.

Today’s international capital markets allow for short-term liquidity ratios to be maximised through the twenty-four-hour trading of money assets. At the same time, however, they are also responsible for fostering an aversion amongst capital investors for taking up longer-term positions. These markets offer such liquid contracts on short-term financial transactions that they remove many of the incentives for cashing in money assets and turning them into productive investments; the returns to which accrue over much longer time horizons. Moreover, the speed with which financial transactions can now be administered has impacted upon the trend level of interest rates in such a way so as to act as a further disincentive for engaging in productive investments. As Benn Steil argues: ‘savers are now highly yield-sensitive’<sup>18</sup> and, as a result, demand greater compensation for giving up additional liquidity when they make their savings available to source new productive investments. Such compensation has tended to take the form of higher interest payments.

The history of the post-Bretton Woods international political economy shows that the trend level of interest rates has risen every time a further liberalisation of the financial environment has made it feasible for a subsequent increase in liquidity preferences to be satisfied. In general, the rate of interest is now appreciably higher than it was in the era in which financial flows were policed by capital controls. The overriding desire for financial liquidity, which has been made manifest in successive increases in the trend rate

of interest, has ensured that productive investors (especially in the small- and medium-sized firm sector) typically face excessive capital costs. The very prospect of these costs has, on many occasions, been sufficient to price potential investors out of production markets. Liquidity demands provide the dynamic, therefore, which ends with there being insufficient flows of investment to absorb all the excess supply currently observed in western labour markets.

The search for additional liquidity within international financial markets has sent shockwaves through western labour markets. Financial transactions can now easily be varied both in form and in geographical location.<sup>19</sup> Such flexibility has significantly lowered transactions costs, and the ever more 'costless' nature of financial trading has led to a massive increase in financial flows. Furthermore, over two-thirds of the flows of financial funds are now so-called 'stateless money'. This places it outside the effective control of national states and, as such, is assumed to have tied national governments to strict constraints in terms of liquidity ratios, interest rates and profit opportunities. As such, the high liquidity preferences which dominate contemporary financial markets also make expansionary changes to domestic monetary policy more difficult to administer. Even modest uncertainty within the financial markets as to whether national governments will be able to resist the temptation to unilaterally expand their economies by lowering interest rates can result in significant moves in the 'sentiments' of the financial markets. The markets can be expected to re-position themselves in order to re-assert the strict interest rate constraint which now appears to face all national governments.<sup>20</sup> Governments are assumed to be powerless to lower national interest rates below a trend

level which the markets find ‘acceptable’ in order to boost productive investment in the domestic economy. Set in this context, increasing financial market integration has effectively sealed off the expansionary option for national governments. For, in the conventional wisdom of globalisation, those holding capital assets are thought to be free to escape the effects of an expansionary monetary policy by re-locating elsewhere, into an environment in which the interest rate constraint is observed more closely.

Once again, in this understanding of the contemporary international political economy, capital mobility is being conceived of in *spatial* terms. Viewed through this perspective, the problem posed by international capital mobility is that the mere threat of extensive short-term financial outflows is often sufficient to deter a government from considering policies which may be treated with suspicion in the markets.<sup>21</sup> In circumstances in which market confidence is lost, rationally-acting capital investors will be expected to transfer their financial assets to another country, one in which the principles of ‘sound money’ are applied with greater vigour. Thus, with physical, statutory and technological barriers to shifting capital no longer considered to be effective in the face of capital’s hyper-mobility, we have been conditioned to expect an ever increasing amount of cross-border short-term financial transactions. In the political rhetoric of globalisation, these transactions are designed to act as ‘correctives’ to national monetary authorities which temporarily step out of line and assert their theoretical independence in terms of domestic policy.

Historically, autonomous national monetary policy interventions have been aimed towards changing the settings of interest rates in order to restore internal balance to the domestic economy. Yet, as Tobin argues, ‘vast funds are [now] prepared [solely] to arbitrage away differences in national interest rates’.<sup>22</sup> Thus, domestic interest rates increasingly are being determined through international financial markets which are thought to clear instantaneously. In this world of perfect spatial capital mobility, financial assets denominated in different currencies become perfect substitutes.<sup>23</sup> As such, they cannot offer divergent returns in different domestic currencies without at the same time sparking substantial financial flows. For, it is commonly assumed that those holding capital assets will take advantage of their supposedly unlimited mobility options to seek out those locations in which the highest rates of interest are to be found. Moreover, it is further commonly assumed that the spatial mobility of capital will, over time, ensure that all domestic interest rates converge upon an international average.

However, the actual evidence regarding domestic interest rates does little to bear out this claim. As Robert Zevin has shown, the correlation between short-term interest rates in the world’s major financial centres is now no higher than it was one hundred years ago.<sup>24</sup> The computer revolution is regularly assumed to have facilitated the instantaneous adjustment in financial prices, as massive flows of capital are released at the push of a button to trigger the adjustment mechanisms. As we can see here, though, even under such circumstances, these prices have shown no more of a tendency to converge than they did when their adjustment required for gold to be physically transported between the world’s financial centres on ocean liners. Therefore, contrary to the predictions of the

financial globalisation hypothesis, we continue to live in a world of interest rate differentials. Viewed through the perspective of capital's *spatial* mobility, this suggests that savers around the world should be attracted to certain financial centres at the prospect of above-average interest rates. Indeed, it is stated clearly in the dominant rhetoric of globalisation that the integration of the world's financial markets allows for financial investors faced with low domestic interest rates simply to transfer their funds overseas. As such, savings are assumed to be more mobile than previously; and, as savers exploit these mobility options, the historic link observed between domestic investment and domestic saving is further assumed to be undermined. In fact, the two are no longer thought to bear any necessary relation. However, once again, empirical evidence does little to support this view. When the rate of domestic investment is regressed onto the rate of domestic saving, a significant correlation remains.<sup>25</sup> This suggests that international flows of long-term financial capital are more restricted than generally assumed. Far from long-term assets moving freely across borders, national economies remain more independent in *spatial* terms than the globalisation hypothesis would have us believe.

Such a conclusion suggests once more that current conventional wisdoms exaggerate both the extent of capital's *spatial* mobility *and* the extent to which such mobility circumscribes the autonomy of national economic policy-makers.<sup>26</sup> Yet, as is shown below, should we focus instead on capital's *functional* mobility, it is still possible to argue that the concentration of an increasing proportion of capital funds in purely speculative financial markets does threaten to undermine the policy autonomy of national

governments. The effects of the increase in speculative activities have been felt most spectacularly in the international foreign exchange markets. This is now the largest and most liquid financial market the world has ever known, with a daily turnover averaging more than US\$1.2 trillion of short-term funds.<sup>27</sup> Currency trading incurs negligible transactions costs, allowing speculators easy access into markets and enabling them to profit from fluctuating interest and exchange rates. However, in recent years, it has become increasingly evident that speculative activities are not directed solely at *existing differentials* between countries in terms of interest and exchange rates. Vast sums of short-term assets are moved in *anticipation* of emerging differentials or even, as is becoming ever more common these days, to *force* such changes. The sheer volume of short-term capital movements associated with contemporary currency crises is out of all proportion to the underlying interest and exchange rate differentials in existence before the onset of speculative activities.<sup>28</sup> Instead, it is speculators themselves who whip up monetary storms by triggering capital movements of such magnitude that they ensure that adjustments in both interest and exchange rates must follow.

Speculative attacks pose a significant threat to national policy-makers because of the capacity that they bear to become *self-fulfilling*.<sup>29</sup> If market traders generate the expectation that a specific currency devaluation would prove to be in their interest, then they are able to make that devaluation a reality. Speculative capital outflows can be initiated at will to cause a run on any currency. In turn, this is likely to trigger a reaction from the relevant national monetary authorities, who can be expected to attempt to stabilise the level of their currency. This they will do by engaging in open market

operations, running down their official reserves to buy their own currency in the face of co-ordinated selling. However, this is not a game which governments can play indefinitely. It is a sobering thought for national policy-makers that the total official central bank reserves of all IMF member countries in aggregate is less than the equivalent of one day's turnover on the world's foreign exchange markets.<sup>30</sup> Given the weight of capital which can be deployed against a particular currency, therefore, no amount of concerted central bank resolve can ever stave off co-ordinated market attacks. Both governments and market dealers know that, should flows of private speculative capital be organised collectively with the specific aim to 'pick off' individual currencies, then such attacks will *always* succeed. This knowledge is sufficient in itself to act as a further endorsement of the incentive to speculate. As such, the rash of currency crises which currently plague the world's money markets often bear no relation to the state of underlying economic fundamentals. The foreign exchange market is dominated by short-term speculators who, in their desire to maximise private liquidity ratios, purposefully undermine interest and exchange rate stability. These rates consequently display a greater volatility *ceteris paribus* than we would otherwise expect. Furthermore, they are frequently moved away, with long-term effect, from levels appropriate to underlying economic equilibria.

Such effects impact particularly severely on the real economy. For it is the level of interest rates which helps to shape investors' expectations in relation to the feasibility of funding future productive investments; and it is the level of exchange rates which helps to shape investors' expectations in relation to the likely market share such investments may

be able to capture. Should speculative activities move both interest and exchange rates above their trend level,<sup>31</sup> investors holding financial assets face reduced incentives to turn these assets into new productive capacity.

In such circumstances, it becomes increasingly difficult to sustain sufficient productive capacity to match labour market demand with supply. It is the systemic presence of excess labour supply which has made western labour so susceptible to globalisation's supposed 'logic of no alternative'. The erosion of statutory trade union rights; the growing casualisation of work in the advanced industrialised world; the exploitation of sweatshop economies by western multinationals; the official tolerance of mass unemployment in the European Union: the political costs incurred by western governments which allowed all of these adverse labour market trends to persist would no doubt be significantly increased in the absence of such acute productive capital shortage. It is with this concern for labour standards foremost in mind that the case is put for re-regulating financial markets as a means of restoring the full circuit of capital. Given that this would mean adjudicating between the contradictory interests of finance and labour by prioritising those of the latter, it should be clear that this is both an economic argument *and a political argument*. However, before such arguments are made, the focus of the paper is turned to the question of financial innovation. The development of a whole new genre of financial markets, those in financial futures, has increased liquidity ratios in these markets still further. As a consequence, futures markets act as yet more impediments to the restoration of the full circuit of capital and, as such, make the case for re-regulating international financial activity still more pressing.

### *3. Financial futures and further impediments to the restoration of the full circuit of capital*

A wide range of markets in financial futures now exists. A futures contract is entered into in an attempt to generate a high degree of certainty about the medium-term market price of a given asset. Indeed, the specified terms of the contract lock in that price at a non-negotiable level for the length of the contract. Futures operate most effectively, therefore, in markets such as those for interest and exchange rate futures, in which the prices of the underlying assets - in this case, interest and exchange rates themselves - are known to be volatile. Both short-term interest and exchange rates clearly do vary, often quite sharply from month to month or even from day to day. Moreover, the fluctuations in these rates often occur in a manner which is difficult to predict. As we have already seen, co-ordinated speculative attacks can move interest and exchange rate levels away from those that would be consistent with underlying economic fundamentals. The markets for financial futures were developed, then, in order to offer a means of reducing the risks associated with unpredictable short-term movements in interest and exchange rates. Underlying risks can be re-distributed through 'hedging mechanisms', allowing for portfolios to be 'immunised' through offsetting actions in related markets.

Therefore, the markets for financial derivatives emerged as a response to changes in the surrounding economic environment. As the institutional arrangements of the immediate

post-war era have been dismantled, the ‘certainties’ which these arrangements guaranteed have rapidly dissipated. The post-Bretton Woods era is one of increased interest and exchange rate risk, and new financial innovations have been developed in an attempt to reduce exposure to such risk.<sup>32</sup> Under a floating exchange rate regime, currency levels are determined according to the often volatile sentiments of the foreign exchange markets. This has generated new incentives to engage in hedging activities and, in turn, this has generated calls for new markets to meet such demands. Floating rates create exactly the sort of market tensions - those associated with excessive price volatility - which futures trading thrives on. As excessive volatility has become a seemingly permanent feature of modern-day financial markets, futures have emerged as an important part of modern finance. We have witnessed explosive growth in the range of available short-term financial instruments. Furthermore, as the issue volume of such instruments has shown a similar growth, activities in *secondary* financial markets now rivals that in primary financial markets as a means of diverting money away from the productive economy. Indeed, the fact that trading volumes for interest rate futures have intensified to such an extent that they now outnumber those for the related cash markets shows quite clearly the extent to which the full circuit of capital is now impeded.

Futures markets tend to offer unlimited access and, subsequently, are used routinely by an increasing number of participants. New investors have been attracted to derivatives markets as these markets have become ever more liquid. As Dennis Carlton argues, ‘for financial instruments, futures markets can sometimes provide an *almost perfect substitute* to a cash purchase of a security’.<sup>33</sup> Moreover, futures markets have proved especially

successful at lowering transactions costs through the instantaneous nature of trading. As a result of the almost total elimination of transactions costs, Carlton raises the possibility that it may even be cheaper to undertake certain transactions in the futures markets than the cash markets. Derivatives markets clearly act as a complement to cash markets, therefore; and, as an increasing amount of financial activity becomes concentrated in futures, they may act more and more as direct substitutes for cash markets.

The derivatives contracts which have succeeded most often in displacing their cash market equivalents have tended to be those which are the most liquid in relative terms.<sup>34</sup> In these markets, the total open positions for financial futures regularly exceed those in the associated securities markets. For example, trading in stock index contracts is often more intense than is same-day trading on the international stock exchanges.<sup>35</sup> As such, we should not be surprised that prices in cash markets frequently reflect trading in the derivatives markets, and not *vice versa*. This should lead us immediately to revise our thinking about futures markets. As Steil asks: ‘When Chicago futures prices lead NYSE cash prices, which product is, economically speaking, a ‘derivative’ of which?’<sup>36</sup> Houthakker and Williamson raise the same issue when they write: ‘To those accustomed to pre-futures ways, it is a clear case of the tail wagging the dog. The question arises, however, which is the tail and which is the dog?’<sup>37</sup> Derivatives markets are now instrumental to the process through which prices are formed in cash markets. *As such, futures markets now have the capacity to discipline the very same cash markets which themselves tend to discipline state-led expansions of the real economy.* Therefore, the

dynamics of capital shortage in productive sectors have at least one of their starting points in futures markets.

It is perhaps the supreme irony of derivatives trading that the extensive use of futures, ostensibly for the purpose of risk management, actually increases the overall risk and uncertainty in the economic system. Thus, the new world order of financial futures is one which injects fundamental *disorder* into other sectors of the economy. As Barbara Carroll observes, there seem to be few obvious theoretical flaws in the assumption that futures markets should act to *stabilise* cash markets, but in practice it appears that the exact opposite has more typically been the case.<sup>38</sup> Far from eliminating risk from the economic system, financial futures actually pose new risks to its efficient functioning, especially in terms of productive sectors.

Two processes need to be explained in relation to this claim. Both processes require for the mobility of capital to be understood in functional terms; each relating in turn to one of the two distinct functions which financial futures fulfil. The first is concerned with the way in which futures allow investors to hedge the risk of price uncertainties in the underlying cash markets. As Desmond Fitzgerald explains: 'Hedgers take a position in the futures market such that profits on the futures hedge compensate for losses on the underlying cash position'.<sup>39</sup> Under passive hedging strategies, then, futures work to lock in a value for the underlying position. Consequently, all potential losses in cash markets can be offset by adopting a contrary position in the related futures market. The virtual absence of transactions costs associated with futures contracts ensures that liquidity is

maximised through the use of derivatives. In short, in almost all cases, additional liquidity is created through secondary markets in financial instruments.<sup>40</sup> With derivatives markets being able to satisfy private liquidity demands *even in the face of possible losses on cash positions*, there is little incentive for capital to flow out of cash positions and into productive investments. As a consequence, for an ever larger number of potential investors, the circuit of capital both begins and ends in the financial markets.

The second way in which the markets for financial futures may disrupt the efficient functioning of the economic system relates to the second function which these markets fulfil: speculation. Fitzgerald argues that derivatives markets enable speculators ‘to back their forecasts with a high degree of leverage’.<sup>41</sup> Indeed, insofar as Lillian Chew can be assumed to be correct when she suggests that derivatives ‘offer *boundless* leverage’,<sup>42</sup> then there would appear to be very little standing in the way of these ‘forecasts’ being turned into subsequent realities. Financial futures markets now act as important influences on the dynamics through which interest and exchange rates are set. As a consequence, derivatives trading also impacts directly on the real economy. As we have seen, productive sectors have been adversely affected by activities in cash markets which have raised the trend level of interest and exchange rates. Moreover, these disequilibrating effects have been multiplied as the speculative activities of derivatives traders have injected new sources of volatility into financial prices.

To explain this further, the futures markets no longer attract only those with passive hedging strategies. Whilst these markets were initiated in order to enable risks to be

offset through hedging, their growth has encouraged a more aggressive stance from financial investors. Derivatives can be moulded into any structure desired by potential customers. In this sense, innovation within the financial futures markets is, to a large degree, 'demand-pull'. That is, speculators in the derivatives markets have demanded new, highly liquid futures contracts which offer them expanded profit opportunities. Futures not only act as a means of price protection, then; nor do they allow merely for profits to be realised from arbitrage between a portfolio of primary securities and related derivatives contracts. When used in either of these ways, the operation of futures markets has only a tangential effect on the productive economy. However, such effects become significantly more pronounced when futures markets are used to realise profits through pure speculation.

Financial futures markets are now used more for speculative purposes than they are for hedging.<sup>43</sup> At face value, speculation would seem to involve accepting additional risk. It is somewhat ironic that futures markets were originally established to allow investors to hedge against risk but, as these markets have been used to an ever greater extent for speculative reasons, they appear to have encouraged investors to take on more risks. However, the image of speculation as risk-taking is difficult to maintain in relation to futures markets. Speculators have a hands-on influence in the formation of prices in these markets, and this immediately increases their ability to 'know' the direction in which the market will move. In effect, they are no longer attempting to predict the direction in which the market will move at all, only the *extent* to which the market will move in the designated direction. To put this another way, it is not a question of whether

futures speculators will make a loss or a gain, merely a question of how much profit they will realise. Economics textbooks routinely refer to speculative activity as the attempt to take advantage of marginal differences between the given prices of underlying cash instruments and related futures contracts. In practice, though, these prices are anything but given. In fact, they are constantly in flux as a response to the activities of speculators themselves. Speculators are able to increase their own profit margins by opening up price differentials between cash and futures markets through concerted one-way betting. As Carlton notes, it is a peculiarity of the structure of futures markets that they will produce a price ‘that reflects some average of the beliefs of the market participants’.<sup>44</sup> It is this pricing structure which enables speculators to exploit self-fulfilling prophecies should all ‘bets’ in the market prove to be one way. Futures markets are consequently dominated by momentum trading. As the market trend embodied in momentum trading becomes readily identified, the volume of trading tends to increase as more and more investors become aware that the trend can, indeed, be their friend. This ‘knowledge’ increases the liquidity of the market, encouraging more investors to join on the side of the dominant bet and, as a result, deepening the momentum of the market trend.

The advent of momentum trading clearly illustrates, particularly in relation to the operation of financial futures markets, that it is more useful to think of capital mobility in *functional* terms rather than in *spatial* terms. Indeed, the very existence of derivatives markets appears to be dependent upon the spatial mobility of capital hypothesis being incorrect. Under the conditions of this hypothesis, capital is assumed to have a privileged vantage point from which it can survey all of its available options. It is therefore able to

identify those economies in which it would be able to earn the highest interest premiums and, as a result of its rational instincts, will move quickly to exploit these profit opportunities. The subsequent flow of capital across space will impact upon domestic money supplies in such a way so as to eliminate the interest rate differentials which triggered the spatial capital flows in the first place. We are thus drawn towards a central assumption of the globalisation hypothesis: that all domestic interest rates will, over time, be 'policed' by speculative activity towards an international average.

Yet derivatives markets *only exist at all* because such convergence has failed to materialise. Futures require a degree of uncertainty in underlying cash markets to be viable. Indeed, a number of the more successful futures contracts thrive on artificially stimulating differences between national interest rates. For the uncertainty which surrounds the ensuing price volatility increases risk premiums. If, on the other hand, capital's spatial mobility were to eliminate all interest rate differentials, then there would be no interest rate uncertainty, no price volatility on financial assets, no risk premiums and, consequently, no demand for financial futures. The continued existence of derivatives markets requires for interest rate differentials to persist into the future. Thus, it requires for capital's spatial mobility to be less than perfect - and certainly more constrained than it is so frequently made to appear in the assumptions of the dominant discourse of globalisation. Instead of focusing on the *spatial* mobility of capital, we can learn more about the destabilising effect of financial futures on the real economy by concentrating on the *functional* mobility of capital. Financial and futures markets have,

over recent years, devoured an ever growing proportion of available capital funds; pointing, once again, to the fundamental functional *immobility* of capital.

Moreover, insofar as technological advances and financial liberalisation have intensified the linkages between different markets, the introduction of a range of derivative instruments have intensified them still further. Derivatives thrive on the intimate relationship embodied in trading the same financial instrument between primary and secondary markets. As a consequence, shocks emerging in one market are unlikely to be contained within that market alone. Indeed, the derivatives markets act as a diffusion mechanism, transferring one market's shocks into a number of other markets.

In the presence of such spill-over effects, public policy becomes increasingly difficult to co-ordinate. Monetary policy, in particular, becomes less exact. The explosion in the volume of derivatives contracts currently being traded is associated with an increase in the volatility of interest rates. However, the rate of interest no longer reflects solely the state of underlying economic fundamentals. As such, and contrary to the most basic law of textbook economics, the demand for money has become increasingly divorced from its price. That is, the demand for money has now become increasingly de-sensitised to fluctuations in interest rates. Thus, whilst derivatives contracts enable the *financial* markets to overcome obstacles to their efficient functioning, they also remove the government's capacity to engage in macroeconomic management on its own terms. If this capacity is to be restored, then the financial markets' ability to innovate at will must

be brought to heel. It is this assertion which dominates calls for the re-regulation of financial markets and also, therefore, the conclusion of this paper.

*Conclusion: The case for strategic re-regulation*

The scope of this paper is inadequate for any detailed discussion of the most effective means of re-regulating the international financial environment. It is sufficient at this stage merely to challenge one of the most entrenched orthodoxies of our times: that relating to capital's supposed 'hyper-mobility'. As such, this paper has had two main themes running through it. Firstly, it has been shown that the *spatial* mobility of capital is far more limited than it is made to appear in the political rhetoric of globalisation. As a consequence, and in direct contradiction of the received wisdom, this has demonstrated that the strategic re-regulation of financial markets remains *possible* (albeit, in all likelihood, only at a supra-national level). Secondly, by focusing subsequently on the question of the *functional* mobility of capital, it has been shown that there are compelling reasons, of both an economic and a political nature, to argue that the re-regulation of financial markets is not only possible, but also *necessary*.

The overriding aim of any new legislation would be to encourage the restoration of the full circuit of capital; that is, to use political interventions to create an economic environment in which there are sufficient incentives for those that hold financial assets to turn these assets into productive investments. The functional immobility of capital

impedes the flow of funds into production. In order to create a new market equilibrium which is more attentive to the needs of the real economy, it would appear to be necessary for a new regulatory regime to be inserted into market relations with a view to changing the relative incentives between holding capital as money and holding capital as productive assets. The goal of political interventions, then, would be to reduce the level of liquidity available in the financial sectors and, as a result, bring financial liquidity ratios more in line with those available in the real economy.

The successful restoration of the full circuit of capital is a necessary, although insufficient condition for the elevation of labour's relative position in the political hierarchy of global economic interests. Therefore, the prior re-regulation of financial market activity appears to be essential should we wish to see the end of restrictive labour practices based on the notion of competitive austerity.<sup>45</sup> For, driven by (empirically unsustainable) assumptions about capital's spatial mobility, western governments now routinely attempt to outbid each other in the inward investment game in relation to how competitively - and, for 'competitively', read 'cheaply' - they can market their respective workforces. According to the dominant discourse of globalisation, the presumed penalty for adopting any other stance is mass capital flight, as footloose investors search overseas for lower-cost locations. As a consequence, western growth is increasingly assumed to have become ever more dependent upon injecting a downward dynamic onto real wages. The result has been an increase in the ability of capitalist class actors to discipline the claims of labour on the one hand, and, in circumstances in which wage cuts are resisted, an increase in the under-employment of labour on the other.

Such a story of the long-term effects of capital's *spatial* mobility can indeed be made to appear compelling. For there are numerous examples of its predictions supposedly coming 'true'. There can be little doubt that western labour *is* under-utilised; both mass unemployment in Western Europe and the increasing casualisation of work throughout the advanced industrialised world suggest as much. Similarly, labour *is* becoming ever more subordinate to capital; statutory trade union rights are being dismantled in the west at exactly the same time that western multinationals are increasing their exploitation of sweatshop economies in the developing world. However, just because the 'effects' of globalisation are visible does not necessarily mean that globalisation can be used to explain their cause. That western labour markets currently fail to clear quite so conspicuously is not due to direct wage competition from the newly industrialising economies. It is the result of a situation of systemic productive capital shortage. This tendency cannot be explained in terms of capital's *spatial* mobility. Instead, it requires that we re-think capital mobility in *functional* terms.

The integration of the world's major financial markets effectively into a single, round-the-clock exchange has increased the liquidity of these markets; moreover, liquidity options have been heightened still further by the creation of a range of markets in financial futures. Subsequently, such markets have begun to devour an ever greater proportion of available capital funds. Potential investors are attracted to these markets by the allure of almost instantaneous profits which such liquidity offers. However, as a result, less and less capital is being prepared for use in productive sectors. In the ensuing

circumstances of capital shortfall, labour supply exceeds labour demand. It is *this* process which leads not only to labour being under-utilised, but also enhances its susceptibilities to the political demands of capitalist class actors.

Consequently, the heightened subordination of labour visible in the era of putative globalisation is not economically-determined by capital's supposedly unlimited spatial mobility. Instead, it is a political outcome contingent upon the prior creation of a global neo-liberal financial environment which acts to impede the full circuit of capital. As such, we must be clear that the most significant choices involved in the regulation of financial markets are, by nature, normative. As Geoffrey Underhill argues:

Ultimately, the complexities of capital adequacy, regulatory boundaries, risk management and investor protection escape the boundaries of technocracy. They are linked to questions of what sorts of societies we want to live in.<sup>46</sup>

If we wish to live in a society whose political economy is significantly different to the one we experience today, then it has been the argument of this paper that we must begin by re-regulating financial market activity.

It is in this sense that this article should be seen as contributing to the themes of the special issue. The 'P' has been put back into IPE in this case through reverting to the type of analysis which typified the classical political economy of the nineteenth century. The arguments contained in this paper should have been seen as an attempt to repoliticise the received wisdom of globalisation through reasserting *each* of what Andrew Gamble calls the 'three key discourses' of that genre: the 'scientific'; the 'practical'; and the

‘normative’.<sup>47</sup> The conventional focus on the spatial mobility of capital highlights primarily a ‘scientific discourse’, as it concentrates on the way in which the political economy of globalisation operates as a social system of enhanced exit options for capital. In turn, the ‘practical discourse’ of policy tends merely to be read off from the assumption that the perfect spatial mobility of capital conjures a political logic of no alternative. However, the actual scientific status of such a claim is much in doubt. Indeed, it is contradicted by the available empirical evidence, which suggests that it is necessary to play down the significance of the spatial mobility hypothesis. Instead, by emphasising the functional mobility of capital, the political context for economic policy-making appears far less closed than it is made to look in the received wisdom of globalisation. Moreover, the adoption of this latter theoretical perspective allows once more for a ‘normative discourse’, concerning the ideal form of state-economy relations, to be injected into economic interpretations of the globalisation phenomenon.

In fact, the terms on which such a phenomenon is to be understood are fundamentally changed by working with a sufficiently repoliticised IPE capable of analysing the normative, as well as the positive, aspects of international financial flows. In adopting the perspective outlined in this paper, for instance, there is no need to assert that the emergence of globalising tendencies represents a qualitative shift in the contours of contemporary capitalism associated with the reprojection of the capital relation into an autonomous sphere of global market relations. The ‘new’ international political economy of which Colin Hay and David Marsh talk in the introduction to this volume is therefore not a ‘new’ *object* of analysis: one cast in the image of the more or less perfect spatial

mobility of capital. Rather, globalising tendencies are assumed here to be indicative of a change in the balance of political forces which underpin the capitalist economy. Therefore, the attempt to put the ‘P’ back into IPE in this instance signifies a desire to repoliticise the way in which the essentially *political* construction of globalisation is viewed. In this sense, then, the ‘new’ international political economy advanced here relates more closely to the development of ‘new’ *modes* of analysis.

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Notes:

\* This paper is a revised version of the paper, ‘Re-thinking Capital Mobility: Putting a Different Kind of ‘P’ into Financial Market Regulation’, presented at the conference, *Putting the ‘P’ Back Into IPE*, University of Birmingham, September 27th-28th, 1997. The author would like to thank David Coates, Colin Hay, David Marsh, the editors of *New Political Economy* and the participants at the conference for pointing out numerous flaws in the original paper. Of course, that significant flaws still persist remains the sole responsibility of the author.

<sup>1</sup> On which point, see, amongst others: Nikolas Rose, ‘The Death of the Social? Re-Figuring the Territory of Government’, *Economy and Society*, Vol. 25, No. 3 (1996), pp. 327-56; Guy Standing, ‘Globalisation, Labour Flexibility and Insecurity: The Era of Market Regulation’, *European Journal of Industrial Relations*, Vol. 3, No. 1 (1997), pp. 7-37; Jamie Peck and Adam Tickell, ‘Searching for a New Institutional Fix: the *After-Fordist* Crisis and the Global-Local Disorder’, in: A. Amin (Ed.), *Post-Fordism: A Reader* (Blackwell, 1994), pp. 280-315; Stephen Gill, ‘Globalization, Democratization, and the Politics of Indifference’, in: J. Mittelman (Ed.), *Globalization: Critical Reflections* (Lynne Rienner Publishers, 1996), pp. 205-28; Hélène Pellerin, ‘Global Restructuring and International Migration: Consequences for the Globalization of Politics’, in: E. Kofman and G. Youngs (Eds), *Globalization: Theory and Practice* (Pinter, 1996), pp. 81-96.

<sup>2</sup> Richard O’Brien, *Global Financial Integration: The End of Geography* (Pinter, 1992), p. 1.

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<sup>3</sup> Jan Aart Scholte, 'Beyond the Buzzword: Towards a Critical Theory of Globalization', in: E. Kofman and G. Youngs (Eds), *Globalization: Theory and Practice*, (Pinter, 1996), pp. 43-57, p. 49 [emphases in original].

<sup>4</sup> For an outline of James Tobin's proposals for a currency transactions tax, see: James Tobin, 'A Proposal for International Monetary Reform', *Eastern Economic Journal*, Vol. 4, Nos. 3-4 (1978), pp. 153-9; James Tobin, 'A Currency Transactions Tax: Why and How', in: J. Stein (Ed.), *The Globalization of Markets: Capital Flows, Exchange Rates and Trade Regimes* (Physica-Verlag, 1997), pp. 1-6; Barry Eichengreen, James Tobin and Charles Wyplosz, 'Two Cases for Sand in the Wheels of International Finance', *The Economic Journal*, Vol. 105, No. 1 (1995), pp. 162-72. For a *post hoc* application of Tobin's arguments for a currency transactions tax, see, for example: Olivier Jeanne, 'Would a Tobin Tax Have Saved the EMS?', *Scandinavian Journal of Economics*, Vol. 98, No. 4 (1996), pp. 503-20. For sceptical reactions to Tobin's proposals, see: Peter Garber and Mark Taylor, 'Sand in the Wheels of Foreign Exchange Markets: A Sceptical Note', *The Economic Journal*, Vol. 105, No. 1 (1995), pp. 173-80; Charles Goodhart, 'Discussant to Professor J. Tobin', in: J. Stein (Ed.), *The Globalization of Markets: Capital Flows, Exchange Rates and Trade Regimes* (Physica-Verlag, 1997), pp. 7-10. For an overview of similar arguments in relation to the re-regulation of international financial markets, see, for example, Barry Eichengreen and Charles Wyplosz's proposals to mandate financial institutions to have compulsory zero-interest central bank deposits: Barry Eichengreen and Charles Wyplosz, 'The Unstable EMS', *Brookings Papers on Economic Activity*, No. 1 (1993), pp. 51-124; as well as Eichengreen, Tobin and Wyplosz, and Garber and Taylor above. For a review of Ruben Mendez's proposal for a regulated global foreign currency exchange, see: Ruben Mendez, 'Harnessing the Global Foreign Currency Market: Proposal for a Foreign Currency Exchange', *Review of International Political Economy*, Vol. 3, No. 3 (1996), pp. 498-512; Stuart Corbridge and Alan Hudson, 'Plausibility, Imaginative Geographies and a Global Foreign Currency Exchange: Comments on Mendez', *Review of International Political Economy*, Vol. 3, No. 3 (1996), pp. 513-17; Christian Chavagneux, 'Foreign Currency Exchange: A Bad Answer to Good Questions', *Review of International Political Economy*, Vol. 3, No. 3 (1996), pp. 518-22. See also: Terry Collingsworth, William Goold and Pharis Harvey, 'Time For a Global New Deal', *Foreign Affairs*, Vol. 73, No. 1 (1994), pp. 8-14.

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<sup>5</sup> For an example of such an argument, see, amongst others, the various contributions in: Jeffrey Banks and Eric Hanushek (Eds), *Modern Political Economy: Old Topics, New Approaches* (Cambridge University Press, 1995); James Alt and Kenneth Shepsle (Eds), *Perspectives on Positive Political Economy* (Cambridge University Press, 1990); James Caporaso and David Levine, *Theories of Political Economy* (Cambridge University Press, 1992), ch. 1.

<sup>6</sup> On the distinction between classical political economy and neo-classical economics, see: Andrew Gamble, 'The New Political Economy', *Political Studies*, Vol. 43, No. 3 (1995), pp. 516-30.

<sup>7</sup> Joe Rogaly, 'Invitation to a Victory Party for Business', *Financial Times*, 26/27.07.97, Weekend Section, p. III.

<sup>8</sup> On which point, see: Colin Hay and Matthew Watson, 'The Discourse of Globalisation and the Logic of No Alternative: Rendering the Contingent Necessary in the Downsizing of New Labour's Aspirations for Government', in: A. Dobson and J. Stanyer (Eds), *Contemporary Political Studies 1998, Volume Two* (Blackwell/PSA, 1998), pp. 812-22; Colin Hay and Matthew Watson, *Rendering the Contingent Necessary: New Labour's Neo-Liberal Conversion and the Discourse of Globalisation*, Center for European Studies Programme for the Study of Germany and Europe, Working Paper #8.4, 1998, Harvard University: Cambridge, MA.

<sup>9</sup> James Mittelman, 'How Does Globalization Really Work?', in: J. Mittelman (Ed.), *Globalization: Critical Reflections* (Lynne Rienner, 1996), p. 229-41, p. 229 [emphases added].

<sup>10</sup> On this point, see, in particular: Paul Hirst and Grahame Thompson, *Globalization in Question* (Polity Press, 1996); Daniel Drache, 'From Keynes to K-Mart: Competitiveness in a Corporate Age', in: R. Boyer and D. Drache (Eds), *States Against Markets: The Limits of Globalisation* (Routledge, 1996), pp. 31-61; Suzanne Berger and Ronald Dore (Eds), *National Diversity and Global Capitalism*, (Cornell University Press, 1996); Meric Gertler, 'Between the Global and the Local: The Spatial Limits to Productive Capital', in: K. Cox (Ed.) *Spaces of Globalization: Reasserting the Power of the Local* (The Guilford Press, 1997), pp. 45-63..

<sup>11</sup> Paul Hirst, 'The Global Market and the Possibilities of Governance', paper presented at the conference, *Globalisation: Critical Perspectives*, University of Birmingham, March 14-16, 1997.

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<sup>12</sup> Frances Fox Piven, 'Is It Global Economics or Neo-Laissez-Faire?', *New Left Review*, 213 (1995), pp.107-114, p. 111.

<sup>13</sup> Gerald Epstein, 'International Capital Mobility and the Scope for National Economic Management', in: R. Boyer and D. Drache (Eds), *States Against Markets: the Limits of Globalization* (Routledge, 1996), pp. 211-24, p. 213. On this point, see also: Robert Wade, 'Globalization and Its Limits: Reports of the Death of the National Economy Are Greatly Exaggerated', in: S. Berger and R. Dore (Eds), *National Diversity and Global Capitalism* (Cornell University Press, 1996), pp. 60-88.

<sup>14</sup> See: Matthew Watson, 'Globalisation and the Development of the British Political Economy', in: D. Marsh *et al*, *Post-War British Politics in Perspective* (Polity, 1999, forthcoming).

<sup>15</sup> On which point, see: Ciaran Driver, 'Tightening the Reins: The Capacity Stance of UK Manufacturing Firms 1976-1995', in: J. Michie and J. Grieve Smith (Eds), *Creating Industrial Capacity: Towards Full Employment* (Oxford University Press, 1996), pp. 75-92.

<sup>16</sup> Kurt Hübner, 'Flexibilisation and Autonomisation of World Money Markets: Obstacles for a New Long Expansion?', in: B. Jessop *et al* (Eds), *The Politics of Flexibility: Restructuring State and Industry in Britain, Germany and Scandinavia* (Edward Elgar, 1991), pp. 50-66, p. 59.

<sup>17</sup> On which point, see: Roy Allen, *Financial Crises and Recession in the Global Economy* (Edward Elgar, 1994); Guglielmo Carchedi, 'Financial Crisis, Recessions and Value Theory', *Review of International Political Economy*, Vol. 3, No. 3 (1996), pp. 528-37.

<sup>18</sup> Benn Steil, 'Introduction: Effective Public Policy in a World of Footloose Finance', in: B. Steil (Ed.), *International Financial Market Regulation* (John Wiley & Sons, 1994), pp. 1-14, p. 4.

<sup>19</sup> See, for example: Richard Harrington, 'Financial Innovation and International Banking', in: H. Cavanna (Ed.), *Financial Innovation* (Routledge, 1992), pp. 52-68; Shane Bonetti and David Cobham, 'Financial Markets and the City of London', in: D. Cobham (Ed.), *Markets and Dealers: The Economics of the London Financial Markets* (Longman, 1992), pp. 1-24.

<sup>20</sup> Eichengreen, Tobin and Wyplosz, 'Two Cases For Sand in the Wheels of International Finance'; Alan Sutherland, 'Financial Market Integration and Macroeconomic Volatility', *Scandinavian Journal of Economics*, Vol. 98, No. 4 (1996), pp. 521-39.

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<sup>21</sup> On which point, see: Adam Przeworski and Michael Wallerstein, 'Structural Dependence of the State on Capital', *American Political Science Review*, Vol. 82, No. 1 (1988), pp. 11-29; Mark Wickham-Jones, 'Anticipating Social Democracy, Pre-empting Anticipations: Economic Policy-Making in the British Labour Party, 1987-1992', *Politics and Society*, Vol. 23, No. 4 (1995), pp. 465-94.

<sup>22</sup> Tobin, 'A Currency Transactions Tax. Why and How', p. 2.

<sup>23</sup> Frederic Mishkin, *The Economics of Money, Banking, and Financial Markets (4th edition)* (Harper Collins, 1995), p. 185.

<sup>24</sup> Robert Zevin, 'Are Financial Markets More Open? If So, Why and With What Effects', in: T. Banuri and J. Schor (Eds), *Financial Openness and National Autonomy* (Oxford University Press, 1992).

<sup>25</sup> Martin Feldstein and Charles Horioka, 'Domestic Saving and International Capital Flows', *The Economic Journal*, Vol. 90, No. 2 (1980), pp. 314-29; Maurice Obstfeld, 'International Capital Mobility in the 1990s', in: P. Kenen (Ed.), *Understanding Interdependence: The Macroeconomics of the Open Economy* (Princeton University Press, 1995), pp. 201-61.

<sup>26</sup> Hay and Watson, 'The Discourse of Globalisation and the Logic of No Alternative...'

<sup>27</sup> *The Economist*, 'One World?', 18.10.97, p. 135.

<sup>28</sup> On this point, see: Peter Kenen, 'Capital Controls, the EMS and EMU', *The Economic Journal*, Vol. 105, No. 1 (1995), pp. 181-92; Barry Eichengreen, Andrew Rose and Charles Wyplosz, 'Contagious Currency Crises: First Tests', *Scandinavian Journal of Economics*, Vol. 98, No. 4 (1996), pp. 463-84.

<sup>29</sup> On the dynamics of self-fulfilling speculative attacks, and an illustration of these dynamics in relation to the collapse of the ERM in September 1992, see: Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton University Press, 1996), especially pp. 179-81.

<sup>30</sup> Andrew Martin, *What Does Globalization Have to Do With the Erosion of Welfare States? Sorting Out the Issues*, Zentrum für Socialpolitik, Universität Bremen, Arbeitspapier Nr.1/1997, p. 19.

<sup>31</sup> For example, it is frequently argued that this situation has, in fact, applied in relation to the British economy. On which point, see: Stephen Bond and Tim Jenkinson, 'The Assessment: Investment Performance and Policy', *Oxford Review of Economic Policy*, Vol. 12, No. 2 (1996), pp. 1-29; CBI 'Realistic Returns: How Do Manufacturers Assess New Investment' (CBI, 1994); Matthew Watson and Colin Hay, 'In the Dedicated Pursuit of Dedicated Capital: Restoring an Indigenous Investment Ethic to

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British Capitalism', *New Political Economy*, Vol. 3, No. 3 (1998); Keith Cowling and Roger Sugden (Eds), *A New Economic Policy for Britain: Essays on the Development of Industry* (Manchester University Press, 1990); Sidney Pollard, *The Development of the British Economy (2nd edition)* (Edward Arnold, 1992); Will Hutton, 'Failings of the British Financial System', in: S. Milner (Ed.), 'Could Finance Do More for British Business?' (IPPR, 1995), p. 11-15.

<sup>32</sup> See, for example: Merton Miller, 'Financial Innovation: The Last Twenty Years and the Next' *Journal of Financial and Quantitative Analysis*, Vol. 21, No. 4 (1986), pp. 459-71; Robert Kolb and Raymond Chiang, 'Improving Hedging Performance Using Interest Rate Futures', *Financial Management*, Vol. 10, No. 4 (1981), pp. 72-8.

<sup>33</sup> Dennis Carlton, 'Futures Markets: Their Purpose, Their History, Their Growth, Their Successes and Failures', *The Journal of Futures Markets*, Vol. 4, No. 3 (1984), pp. 237-71, p. 254 [emphases added].

<sup>34</sup> Desmond Fitzgerald, *Financial Futures (2nd edition)* (Euromoney Publications Ltd., 1993), p. 3.

<sup>35</sup> Barbar Carroll, *Financial Futures Trading* (Butterworths, 1989), p. 1.

<sup>36</sup> Steil, 'Effective Public Policy in a World of Footloose Finance', p. 2.

<sup>37</sup> Hendrik Houthakker and Peter Williamson, *The Economics of Financial Markets* (Oxford University Press, 1996), p. 279.

<sup>38</sup> Carroll, *Financial Futures Trading*, p. 14.

<sup>39</sup> Fitzgerald, *Financial Futures*, p. 9.

<sup>40</sup> Richard Harrington, 'Financial Innovation and International Banking', in: H. Cavanna (Ed.), *Financial Innovation* (Routledge, 1992), p. 62.

<sup>41</sup> Fitzgerald, *Financial Futures*, p. 4.

<sup>42</sup> Lillian Chew, *Managing Derivative Risks: The Use and Abuse of Leverage* (John Wiley & Sons, 1996), p. 29 [emphases added].

<sup>43</sup> On which point, see: Robert Chia and Doreen Soh, *Simex and the Globalization of Financial Futures*, (Times Books International, 1986), p. 112.

<sup>44</sup> Carlton, 'Futures Markets...', p. 7.

<sup>45</sup> See: Leo Panitch, 'Rethinking the Role of the State', in: J. Mittelman (Ed.), *Globalization: Critical Reflections* (Lynne Rienner, 1996), pp. 83-113.

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<sup>46</sup> Geoffrey Underhill, 'Global Markets, Macroeconomic Instability and Exchange Rate Crises: The Political Economy of the New World Order in International Finance', in: G. Underhill (Ed.), *The New World Order in International Finance* (Macmillan, 1997), pp. 313-18, p. 317.

<sup>47</sup> Gamble, 'The New Political Economy', p. 518.