



# World Financial Orders

An Historical International  
Political Economy

Paul Langley

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Economy

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An Historical International Political Economy

*Paul Langley*

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## Series editors' preface

In a world where political and economic well-being is more or less gauged by the vagaries of the Dow Jones Index (as shown on peak-time television news broadcasts), and political decision-making is increasingly inter-locked with breathless decisions made in world financial centres such as London, New York and Tokyo, Paul Langley's book, *World Financial Orders: An Historical International Political Economy* is appearing not a moment too soon. This exciting new research monograph in the *RIPE Series in Global Political Economy* builds on previous titles in the series such as Emily Gilbert and Eric Helleiner's edited volume, *Nation-States and Money*, and Christopher May's *Global Political Economy Intellectual Property Rights*. Like these, it takes a broad historical and critical perspective to the specific subject matter (national currencies and property rights as historically contestable).

This study of the rise and fall of the Dutch, British and American World Financial Orders and their respective World Financial Centres (Amsterdam, London, New York) over the last four hundred years is, in Langley's words, a 'call to history' in a century that has seen the demise of the post-Second World War 'American' Financial Order and the emergence of a more diffuse, albeit powerful, 'Global' Financial Order based in London, New York and, now, Tokyo. Langley's call to history allows for a fresh look at not only the continuities in the structures and mechanics (credit movements, financial regulation and liberalisation, multi-lateral governance agreements such as Bretton Woods) of past world financial orders but also at how and why the contemporary neo-liberal economic order differs from those of the past. Langley develops a distinct approach in which he combines the best of world-systems theory work in this area (Wallerstein and in particular Arrighi), the unique approaches of Susan Strange and of Saskia Sassen, and the work on world order by Robert Cox and like-minded scholars.

Thus, in *World Financial Orders* Langley plots how neo-liberal notions of what constitutes governance of financial markets, domestic and international monetary policies, and social relations are *historically embedded*. They are thereby contested and contestable as opposed to unquestionable. In this way, Langley's study of the rise and fall of these three discrete historical moments in the *longue durée* of western capitalism, as a 'world system' (broadly speaking) firmly demystifies the neo-liberal catch-cry of the 1980s that there is (and was) 'no alternative' but to liberalise financial markets and thereby disengage political and social forces and institutions

from the 'big business' of where and how credit flows in and through different economies. But Langley also argues that the upshot, a neo-liberal World Financial Order that lurches from one financial crisis and its international repercussions (Mexico in the 1980s) to another (the Asian Crisis of the 1990s) has been underpinned by 'orthodox' (Liberal and Realist) International Political Economy frameworks that divorce political questions from economic ones, and social issues and power relations from both. Through a careful historical and theoretical reconstruction of the key issue areas of International Political Economy (states, markets, trade and finance and how to govern all these interactions), Langley shows that whilst today's World Financial Order may boast relative stability (where current credit practices are legitimated and London, New York and Tokyo share – rather than compete for – prominence) it is also 'crisis-ridden'. The reasons for this are not, in Langley's analysis, simply due to the rise and fall of US financial hegemony in the last part of the twentieth century. Far from it. Instead of offering a satisfactory framework for 'explaining why' these complexities occur, such 'orthodox IPE' frameworks perpetuate a 'problem-solving' approach that does not question basic assumptions. This leads to both an over-statement of the inevitability of market liberalisation and an under-estimation of possibilities for structural change in the world order and political organisation in national contexts. In this respect, Langley's concluding chapter is a particularly welcome addition to critical analyses of the contemporary world financial order to date, many of which are often resigned to its boom and bust dynamics and rely on crisis-management rather than a concerted effort to ensure long-term change.

For students of burgeoning IPE courses, especially those who are increasingly aware of the many methodological and philosophical differences *within* this (sub)discipline and how these relate to the classic meta-theoretical debates in International Relations theory, Paul Langley's study is a valuable contribution to understanding these differences as both historical events and intellectual 'meaning-making'. His ability to integrate a broad historical sweep (1600s to present-day) with the details of contemporary credit movements, changes in banking regulations, and the geographic and social particulars of the Netherlands, Britain and the USA in a sophisticated analysis of 'stability, crisis and governance in the contemporary world financial order' will appeal to both specialists and non-specialists alike. Along with his practical policy and regulatory suggestions, this book certainly lives up to Langley's project to show exactly why the understanding of 'the contemporary financial order does not lie in a simple focus on the . . . US state, but rather on changes in the very nature of financial power and developments in the wider world order'.

Otto Holman  
 Marianne Marchand  
 Henk Overbeek  
 Marianne Franklin

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# Abbreviations

AMF	Asian Monetary Fund
BCCI	Bank of Credit and Commerce International
BIS	Bank of International Settlements
CD	certificate of deposit
CHIPS	Clearing House Interbank Payments System
COB	Commission des Bourses
COM	European Commission
CRP	City Research Project
ECB	European Central Bank
EPU	European Payments Union
EU	European Union
FDI	foreign direct investment
FSA	Financial Services Authority
FSF	Financial Stability Forum
GATS	General Agreement on Trade in Services
HIPCs	heavily indebted poor countries
HST	hegemonic stability theory
IBF	International Banking Facility
IET	Interest Equalisation Tax
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IPE	International Political Economy
IR	International Relations
ISI	Import Substitution Industrialisation
LETS	Local Economic Trading Systems
LSE	London Stock Exchange
LTCM	Long Term Capital Management
MCP	Mandatory Control Program
MNC	multinational corporation
MOUs	Memoranda of Understanding
NAFTA	North American Free Trade Agreement
NASDAQ	National Association of Securities Dealers' Automated Quotation System

NGO	non-governmental organisation
NYSE	New York Stock Exchange
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
OFC	offshore financial centre
PIER	politics of international economic relations
ROSC	Report on the Observance of Standards and Codes
SEAQ	Stock Exchange Automated Quotation
SEC	Securities and Exchange Commission
T-bond	United States Treasury bond
TOM	Tokyo Offshore Market
TSE	Tokyo Stock Exchange
VCRP	Voluntary Credit Restraint Program
WFC	world financial centre
WTO	World Trade Organisation

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# Introduction

## Apprehending world finance

The Stock Exchange is chiefly attended by persons who are unremittingly attentive to their business, and are well acquainted with its details; but there are very few in number who have much knowledge of political economy, and consequently they pay little attention to finance, as a subject of science. They consider more, the immediate effect of passing events, rather than their distant consequences.

(David Ricardo 1814, in Kynaston 1994: 18)

World finance today, as with the London Stock Exchange of David Ricardo's time, is dominated by financiers whose nervous physical energies are focused upon daily events. News of profit warnings, changing credit ratings, share offers, mergers and acquisitions is reflected in the fluctuating market price of one financial instrument or another with 'immediate effect'. Yet, as the wave of financial chaos that spread from Asia through Latin America and Eastern Europe during the last years of the 1990s once again starkly illustrated, world finance can have wide-reaching social consequences that are far from benign. Ephemeral preoccupations with daily events clearly become inadequate when world finance has 'distant consequences' of such magnitude. Knowledge of world finance from 'political economy' becomes indispensable if we are to understand its social and political significance and move towards some form of progressive action to address its deleterious consequences.

Ricardo's call for a political economy of world finance is not, however, as straightforward as it might appear. We live in a period characterised not only by volatile daily shifts in market prices but by a structural transformation in world finance. As with so many other areas of social life, this structural change is often captured under the rubric of 'globalisation'. International organisations, national governments and the financial press all tend to suggest that contemporary world financial restructuring is marked by the unprecedented emergence of a genuinely integrated, twenty-four hour global marketplace – that is, so-called 'global finance'. Meanwhile, academic interventions have either reinforced or cast doubt upon the accuracy of this reading of change. For instance, challenges have been made to the

assumptions that markets for all wholesale financial instruments are genuinely global and that today's world financial markets have become more integrated than those of the late nineteenth century (Hirst and Thompson 1996; Watson 1999). In developing a political economy of contemporary world finance, then, it is necessary to confront the uncertain structural transformation that may be leading to a reworking of the social and political significance of world finance.

The construction of a political economy of contemporary world finance encounters an additional problematic alongside the need to address restructuring. The preoccupation of financiers with daily events is no accident, but at once reflects and contributes to neo-liberal political economy as the prevailing mode of knowledge of world finance.<sup>1</sup> Our attempts to comprehend contemporary world finance are, by and large, strait-jacketed by neo-liberal political economy. At its roots, neo-liberalism combines the classical liberal assumption that economy is a distinct set of market relations separable from politics and society with the neo-classical liberal belief that the economic behaviour of *Homo economicus* is rational and utility maximising. 'Economy' and 'market' tend to be equated and used interchangeably in common-sense parlance, and the combination of economy as separable realm with economy as mode of behaviour is mutually reinforcing (Langley and Mellor, 2002). Perhaps most significantly, the market economy takes on a naturalised, trans-historical and universal quality, pushing inexorably across space and enduring throughout time (Williams 1999). Empiricist epistemology and positivist methodology provide the meta-theoretical underpinnings that legitimate neo-liberal political economy,<sup>2</sup> enabling the exclusionary production of knowledge about economy that serves to 'fix' the common sense.<sup>3</sup> In particular, ontological assumptions of economy as a rational mode of behaviour are both predicated on and reinforced by the individualist methodology of positivism (Murphy and Tooze 1991b). Such is the heady, circularly reinforcing combination of ontology, epistemology and methodology in neo-liberal political economy that Hodgson (1994) and Fine (1999) see contemporary economics as 'colonising' other branches of the social sciences. Not only does economy as a mode of rational behaviour become applied to the study of socio-economic life but, with the development of rational choice theory, it tends to come to frame analysis of all aspects of social and political life. The primacy of rational economic motives is seen as taking precedence over other conflicting and transient motivations such as emotions, attachments and desires. In terms of world finance, market relations are viewed as ensuring that rational responses to daily events become expressed as price fluctuations.

Once the contemporary ascendancy of neo-liberal political economy in the framing of understandings of world finance is recognised, the ideological connotations of globalisation begin to be revealed. Neo-liberalism's trans-historical and teleological reading of restructuring is extended through the use of globalisation as an arresting metaphor for change (Amoore *et al.* 1997). The emergence of a twenty-four hour global marketplace for finance is effectively naturalised, cast as the benign and inevitable result of the expansionary rational logic of the market mechanism and carried forward by breakthroughs in information and

telecommunications technologies. The structural transformation of world finance to realise 'global finance' is taken as a given. The practices and policies of financiers, economists, politicians and societies begin from the assumption that 'globalisation is . . .', undertaking rational responses to the new reality. Under the predominant neo-liberal mode of knowledge, shifting our concerns away from 'the immediate effect of passing events' is problematic as the legitimate consideration of the social and political dynamics of world finance is rendered fractious.

It is against this background of an uncertain structural transformation in world finance and the predominance of a restrictive and exclusionary mode of knowledge of transformation that the purpose of this book should be seen. Practices and policies informed by explanations of world finance that naturalise change, reify the market and fail to address the damaging consequences of contemporary world finance will continue to predominate unless alternative modes of knowledge are articulated. Once in place, alternative modes of knowledge may lead to contests over the concepts used to account for contemporary world finance. Such 'conceptual contestation' (Rosow 1994: 472) may (re)socialise and (re)politicise the practices, structures and institutions of world finance. The neo-liberal façade of globalisation is questioned once world finance is recognised to be historically constructed and resting on hierarchical social and power relations. In turn, the emancipatory and transformative potential of an alternative mode of knowledge is closely related to its capacity to highlight the dialectical possibilities present in restructuring, that is, the way in which transformation generates contradictions and new configurations of social and political forces capable of mounting effective movements for progressive change. In moving beyond a preoccupation with daily events and prices to a political economy of world finance that works towards forestalling the worst eventualities of restructuring, alternatives to the neo-liberal mode of knowledge are an essential starting point.

## **IPE and world finance**

Dissatisfaction with the course taken by contemporary world financial restructuring and the neo-liberal mode of knowledge that has framed explanations of restructuring is reasonably well spread. What is less apparent, however, is on what basis an alternative mode of knowledge of world finance may be constructed. Clearly, we must look beyond the mainstream neo-liberal economists, financiers and journalists who currently act as the 'gatekeepers' (Cox 1992a/1996: 178) of knowledge of world finance. The mode of knowledge developed here is at once broadly situated within, and built upon an engagement with, *International Political Economy* (IPE). IPE is 'an area of investigation, a particular range of questions, and a series of assumptions about the nature of the international "system" and how we understand this "system"' (Tooze 1984: 2). The roots of the rebirth of interest in IPE as a field of inquiry lie in the crisis of the discipline of *International Relations* (IR) in the early 1970s.<sup>4</sup> The breakdown of the world economy during this period could not be accounted for within IR's research agenda, which was locked into Cold War security concerns. At the same time, international economists



continued to pay little attention to international politics in their efforts to explain the world economy's predicament. IPE re-emerged to 'fill the gap' (Krasner 1996: 109) that resulted from this situation of 'mutual neglect' (Strange 1970) in international studies.

Given that the collapse of the Bretton Woods fixed-exchange arrangements between 1971 and 1973 was a key feature of the breakdown of the world economy, IPE has become established as a central avenue for inquiry into contemporary world money and finance. In practical terms IPE offers the fertile soil of an existing body of scholarship from which to begin to account for contemporary world finance. Furthermore, ontological, epistemological and theoretical debates within IPE are particularly informative as we seek to construct an alternative mode of knowledge of world finance from robust foundations. The roots of these debates lie in the belief shared by some scholars that a re-emergent IPE should do more than simply address the situation of mutual neglect between IR and international economics, instead striving for a mode of knowledge capable of casting light on 'a realistic strategy for gaining some control over the process of structural transformation' (Cox 1981: 64). While IPE is widely accepted as a field of inquiry and set of questions, such debates create considerable disagreement among IPE scholars as to what questions should be posed and what assumptions should be made. These debates, in turn, have resonated across inquiry in IPE into world finance. For our purposes, the struggle of what has been labelled 'new IPE' to establish itself in the face of the predominant 'orthodox IPE' is particularly informative (Murphy and Tooze 1991a; Payne and Gamble 1996: 3–10; Hay and Marsh 1999; Palan 2000). It is the way that ontology, epistemology and theory come together for each of these loose groupings that gives orthodox and new IPE their respective standings as conflicting modes of knowledge within the field. Given that orthodox IPE shares much of its ontology and epistemology with neo-liberal political economy, the critique of these features of orthodox IPE offered by new IPE supplies a starting point from which to begin to generate an alternative mode of knowledge capable of apprehending world finance.

### ***Orthodox IPE and world finance***

The ontology of orthodox IPE is derived from neo-liberal political economy. This suggests that the international economy is the cumulative product of exchange between national communities made up of rational individuals. When combined with the state-centric and formalist understanding of politics received from the theories of realism and liberalism ascendant within IR, the ontology of orthodox IPE tends to be expressed as the 'politics of international economic relations' (PIER) (Spero 1977; Strange 1988: 12). The central object for inquiry becomes the manner in which the rise and fall of state power, the politics of national economic policy-making and international economic agreements impinge upon the exchange (i.e. trade) relations between national economies (cf. Cohen 1990). Although they are considered together, politics and economics or states and markets remain largely opposed forms of social organisation (Gilpin 1987: 4). In short, orthodox