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978-0-521-59142-3 - The International Organization of Credit: States and Global Finance  
in the World-Economy

Randall D. Germain

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In this book, Randall D. Germain explores the international organization of credit in a changing world-economy. At the center of his analysis is the construction of successive international organizations of credit, built around principal financial centers and constituted by overlapping networks of credit institutions, mainly investment, commercial, and central banks. A critical historical approach to international political economy allows Germain to stress both the multiple roles of finance within the world-economy and the centrality of financial practices and networks for the construction of monetary order. He argues that the private global credit system which has replaced Bretton Woods is anchored unevenly across the world's three principal financial centers: New York, London, and Tokyo. This new balance of power is fragmented with respect to relations between states and ambiguous in terms of how power is exercised between public authorities and private financial institutions. Germain's analysis thus suggests that we are living through a period of fragile international monetary order.

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# **The international organization of credit**

## **States and global finance in the world-economy**

Randall D. Germain

*University of Newcastle upon Tyne*



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This book is dedicated with thanks and love to  
my mother, Helga, my wife, Cindy, and my daughters  
Elyse, Bronte, Rowen, and Kyla.

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## Preface

International political economy (IPE) is today both too narrow and too broad an intellectual enterprise. Its narrowness derives largely from the rigidities imposed by economics and political science as its primary intellectual mentors. Economics and political science each think of international political economy as a natural part of their academic universe, a distinct solar system perhaps, but one inhabiting a familiar galaxy of thought. Its broadness, on the other hand, is often due to the imperial pretensions harbored by those who identify themselves as international political economists. Few subjects fall outside their intellectual purview: the world is their oyster and they are keen to analyze it as such. As a result, IPE offers something to nearly everyone. It is a field with few boundaries and more than its share of questionable concepts and definitions.

Contrary to many excursions into this new and wide-open field, my purpose in the following pages is to alternately broaden and narrow IPE as an intellectual discipline. I wish to broaden its narrowness by looking beyond politics and economics as its principal intellectual inspirations, in this case towards history and the development of an historical mode of thought about IPE that is capable of breaking down intellectual barriers rooted in disciplinary prejudices. At the same time, I seek to narrow IPE's broadness by arguing that there is a particular subject matter at the heart of IPE which should guide its major lines of inquiry. This subject matter is what Fernand Braudel calls the *world-economy*, and explicating the meaning of this term and showing how its precepts can guide our inquiries is a central goal of this study. IPE, in other words, must both broaden its intellectual horizons and narrow its field of inquiry if it is to develop into a coherent and reflective discipline, capable of providing critical reflec-

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tions about the way in which the world is organized. For in the end, I believe that such critical reflection is the chief promise of IPE, and if this work moves us along that path then it will have realized a good deal of what I set out to do.

This project has travelled a long path since its inception as a doctoral dissertation at York University in Toronto, Canada. York University in the late 1980s was a place of considerable intellectual ferment, and it provided a challenging environment in which to pose the question of international monetary order from an IPE perspective. For their support, encouragement, and critical comments on various parts of the manuscript, I wish particularly to thank David Leyton Brown, Stephen Gill, Paul Evans, Keith Krause, and Jennifer Milliken among the faculty members, and Grant Littke, Geoff Martin, Robert O'Brien, Timothy Sinclair, and Deborah Stienstra among my student cohort. Lou Pauly from the University of Toronto also provided helpful comments on an early draft. At the University of Sheffield in England, where I held my first academic post at the Political Economy Research Centre, I found a congenial environment in which to reflect on the larger project, undertake new research on the regional organization of finance, and then transform the dissertation into a book. In addition to many enjoyable conversations with Sylvia McColm about the idiosyncrasies of British life, my work benefitted from exposure to the critical insights of Michael Dietrich, Andrew Gamble, Ian Hardin, Ankie Hoogvelt, Ian Kearns, Michael Kenny, David Marquand, Tony Payne, Jonathan Perraton, Andrew Tylecote, and especially Ngai-Ling Sum, a wayward soulmate on the intellectual odyssey known as academia. The assistance of a group of bright young postgraduate students – Dominic Kelly, Gavin Kelly, and Peter Wells – in the reassessment of my ideas on the organization of finance was also invaluable. Without implicating any of these individuals in the arguments of this book, I would like to thank each of them for their time and engagement with the ideas presented here.

Funding for this research has come from several sources. In Canada, my doctoral work was supported by scholarships from the Social Sciences and Humanities Research Council of Canada and the Ontario Government. In the United Kingdom, further research on the regional organization of finance has been supported by the University of Sheffield, the Nuffield Foundation, and the Political Economy Research Centre. This research in turn has influenced my thinking on the international organization of credit. Finally, the Department of

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Politics at the University of Newcastle, where I have recently taken up a lectureship, has kindly provided funds to compile the index, a task which Paul Langley has efficiently executed. I take much pleasure in acknowledging the support which these institutions have offered this project.

I would also like to express my thanks to Roger Tooze, John Haslam, and Barbara Docherty at Cambridge University Press. Roger's initial enthusiasm for this project placed the time I took to do the revisions into a helpful perspective, while John and Barbara's efficiency in the production process was very much appreciated by this first-time author.

There are three individuals whose contributions to this project and to my own academic career over the years warrant special acknowledgment. I have counted on the intellectual companionship and honest friendship of Michael Williams for a good number of years now, and can think of no better way of expressing this than by implicating him, however remotely, in one of the products of that friendship. Although he and I practice our crafts in different fields, I have always thought that he would have made a good international political economist if only he could have left the field of security studies to its just desserts. I have also taken my association with Robert Cox, from my earliest days at York University, to be one of those rare treasures that life occasionally and inexplicably bestows upon us. Not only has his work left an indelible impression on my own, but he has, through his generosity of spirit, consummate professionalism, and profound sense of integrity, confirmed for me that humane individuals can also make first-class academics. And my father-in-law, Dr Iserdeo Jainarain, through his unstinting belief in the rewards of higher education (including his constant encouragement thereof) and his indefatigable penchant for engaging in critical conversation, has imparted to me an admiration for the life-long process of learning which I hope never to exhaust.

Finally, more than most young academics today, I owe a debt to my wife and family that cannot be repaid in mere words. My mother has always understood and supported the difficult decisions which eventually took me from my home in Canada's Yukon Territory to a city on the coast of north-east England. My wife (and first friend) has continually encouraged me in my work, even as the opportunities for career advancement took us further and further away from family and friends. Together with our children, she has ensured that the

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process of becoming an academic has not eclipsed a healthy perspective on life itself. Our first child was born on the day in 1990 when the outline of what eventually became *The International Organization of Credit* was due to be delivered to my doctoral supervisor, and the imminent arrival of our last child in 1995 sped the process of completing the revisions far more effectively than any publisher's deadline. My family is as intimately bound up with this work as are the comments and ideas of my many academic colleagues, and it is therefore to them that this book is dedicated.

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Newcastle upon Tyne

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## Note on figures and tables

The use throughout the figures and tables in the book of “net long-term capital movements” is an attempt to separate these capital movements from both short-term capital movements and movements of reserve funds, whether destined for public or private monetary institutions. It is these funds which are most likely to be used for investment purposes, rather than the funds which are issued, bought, and sold in order to shore up liquidity positions. An attempt to identify them, therefore, is an attempt to arrive at a picture of the movement of those funds most important to the functioning of the world-economy.

Net long-term capital movements are derived from the items in the IMF *Balance of Payments Yearbook* identifying unrequited transfers, long-term private assets and liabilities, and official long-term assets and liabilities. The latter two are included as “non-monetary” capital movements by the *Yearbook*, in order to distinguish them from movements of capital related to reserve requirements of public and private monetary institutions. These categories have changed over the years in their form of presentation, but every effort has been made to be consistent in what is included in these figures.

The main intention of using the data presented in this way is to begin thinking about monetary order in terms of productive investment, capital recycling, and the organization of credit. In order to do this, it is necessary to know about the extent of long-term capital movement; its composition (securities, equities, or direct investment); and its source, i.e., whether it is public or private. These figures and tables are a first attempt at making these distinctions.

All figures are in US dollars, and have been converted at end-of-year exchange rates. Unless otherwise indicated, the source used in the construction of these tables is the IMF *Balance of Payments Yearbook* (various issues).

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## Glossary

BIS	Bank for International Settlements
EMS	European Monetary System
EPU	European Payments Union
FDI	foreign direct investment
Fed	Federal Reserve Bank (US)
GATT	General Agreement on Tariffs and Trade
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
IMS	international monetary system
IOSCO	International Organization of Securities Commissions
IPE	international political economy
IR	international relations
MNC	multinational corporation
NATO	North Atlantic Treaty Organization
OEEC	Organization for European Economic Cooperation
OPEC	Organization of Petroleum Exporting Countries
PFC	principal financial center
TNC	transnational corporation