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978-0-521-72721-1 - Central Banking as Global Governance: Constructing Financial Credibility

Rodney Bruce Hall

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## *Central Banking as Global Governance*

Money is a social convention, but with what social consequences? In this innovative study, Rodney Bruce Hall argues that those who govern the parameters of money's creation, its destruction, and its valuation are responsible for the governance of international finance. The volume is an analysis of central banking as global governance, employing the institutional philosophy of John Searle as a theoretical basis for exploring the consequences of money as a social institution, and the social relations of credit and debt. While previous studies in this field have made forays into the political economy of monetary institutions, this book breaks new ground by offering a constructivist social analysis that identifies the mechanisms of governance as social rather than material processes. The volume will therefore be of great interest to a wide range of scholars and students, particularly those with an interest in international relations, international finance, and international political economy.

RODNEY BRUCE HALL is University Lecturer in International Political Economy at St. Cross College, Oxford University.

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*For Joan Marie – still adventuring*

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*... markets look more efficient from the banks of the Charles  
than from the banks of the Hudson.*

Alan S. Blinder

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## *Preface*

This book arises out of my fascination with social theory, the ever-changing artifice of finance, and the question of how this artifice is constructed and reconstructed. Since leaving my native country in 2003 for Oxford's old stone walls I have been fascinated by economic differences between my native and adoptive countries. I have been fascinated by what money will and won't buy on either side of the Atlantic, and by the fact that the price of goods other than property and petrol has been relatively stable, though food prices and other commodity prices have also risen in recent years. Food, fuel, and housing are not accounted for in "core inflation" indices in either country. Presumably so long as one does not need a roof over one's head, to travel to work, or to eat, inflation is no great issue?

The past half decade or more saw people pay exorbitant prices for quite modest homes and count themselves wealthy and confident that "bricks and mortar" would assure their future wealth – with never a thought that they might be purchasing shockingly overpriced property with badly debased currency. In a financial world awash with liquidity, actors in the global bond markets have snapped up highly risky developing world sovereign debt issues, whose quite significant risks of default might relegate them to junk bond status, at trivial yield spreads above US Treasuries. Then within months of extending cheap credit to those with little chance of being able to repay in an economic downturn, UK banks were charging one another nearly 7 percent Libor rates for overnight loans when credit conditions worsened in the aftermath of the "subprime" credit crunch. Credit conditions nearly collapsed in late 2007 as financial institutions discovered to their consternation that they could not find a price in the market for their large positions in collateralized debt obligations (CDOs). We have seen all of this financial drama unfold because the world's central banks have printed an awful lot of money, and that money has been seeking a return and

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generating the destructive asset bubbles that form the financial headlines of the day. We have seen the central bankers talk to the markets in various attempts to tell them where their monetary policy was going, and the markets have talked back, and told the central bankers, with diverse and far from united voices, where they want monetary policy to go.

Enormous tides of capital have been generated and swept away in these discussions, and I have been struck by the similarities in the public discussions between those central banks which have been granted independence from finance ministries, and actors in the bond and foreign exchange markets. It is a highly social interaction, and the social relations of credit and debt that constitute global finance are articulated in this exchange. We have seen global financial governance unfold in these discussions, with enormous causal significance for the direction of capital formation. The current offering is my effort to develop and explain these highly social relations of credit and debt through which the mechanisms of global financial governance are constructed.

In the era of fiat money, money (financial capital) is a social convention. Those who govern the parameters of its creation, its destruction, its valuation, as well as the parameters of the valuation of the promises upon which the social convention of money is constructed, are those who govern global finance. The mechanisms of governance are social, not material, processes. The literatures in monetary economics and central banking are replete with quite explicit references to the social nature of these mechanisms. Central banks must establish “credibility” to ensure price stability, we are told. The literature concerns itself with inherently social concepts, and the social scientist can read there the exertions of monetary economists and central bankers grasping for an analytic lexicon, which the highly stylized language of neoclassical economics clearly fails to provide, that might deal with the real problems that face them. These are inherently social problems. Their resolution requires a genuinely social analysis. The current offering is humbly offered as an attempt to help. It is high time for a constructivist book on money and central banking. In grasping for a socialized lexicon with which to deal with many of their analytic problems the literatures of specialists in these fields tell us it is time as well. I hope others better suited to the task than me will follow up the beginning proffered in these pages.

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I am grateful to Rawi Abdelal, Mark Blyth, Louis Pauly, two anonymous Cambridge referees, and my students at Oxford in the postgraduate seminar on global financial governance for useful criticisms of earlier versions of this work. I am grateful to John Haslam at Cambridge University Press and to the editors of the series Cambridge Studies in International Relations for their interest in and support of the project. Thanks to the Oppenheimer Fund of Queen Elizabeth House for financing the book's index. And always my deepest gratitude is reserved for my wife, Joanie, who puts up with me while I play in my intellectual sandbox.