International Financial Governance under Stress

Global Structures versus National Imperatives

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JONATHAN STORY

The financial crises of the 1990s, following two decades of financial market liberalisation and ever growing capital flows, have prompted a passionate debate about 'globalisation' as the successor world system to the Cold War. The background to these crises is a story well told, stretching from the breakdown in the Bretton Woods system in the 1960s, the confirmation of the dollar as the world's reserve and transaction currency, the recycling of funds following the rise in oil prices, and the expansion of the financial marketplaces in London and New York. This in turn prompted a scramble among developed countries to open their securities markets to institutional investors, who demanded the liberalisation of capital controls as the price for their presence. Liberalisation of capital movements then spread to developing countries.[1] Initially, resistance was loud, but as time passed and US hegemony became entrenched, even major financial meltdowns – such as the devaluations of the Italian lira and pound sterling in 1992, or the collapse of the Mexican peso in late 1994 – attracted only temporary attention. By the mid-1990s, confidence in dominant policy prescriptions reigned supreme. Asia's financial crash therefore came as a shock, the equivalent for economists of the Soviet Union's collapse for sovietologists, all the more severe in that it was unpredicted and its severity unanticipated. The crisis started with the devaluation of the Thai baht in July 1997, spread to Indonesia where General Suharto's regime was coming to a close and ricocheted into Taiwan, South Korea and Malaysia before spreading to Brazil, South Africa and then Russia.

Unlike previous meltdowns, this chain of events revived a long-dormant debate on the world's financial architecture, conducted this time principally among economists, and mainly in the United States. It therefore tended to be skewed in that politics – domestic or international – was given a back seat, or granted a walk-on role to provide light relief to a supposedly technical problem. It also meant that US opinions weighed disproportionately in the balance, seeming to reinforce the view of the post-Cold War decades as representing a unipolar moment in world affairs. Caricaturing only slightly, reform of the world financial

Table 1. *Perspectives on globalisation.*

	State system	Norms of state governance	World markets	MNCs and host countries
Liberals				
Social democrats				
Prophets				
Realists				

system was presented as a choice between more government or more market. Joe Stiglitz, the World Bank's chief economist, in one corner challenged the IMF's emphasis on the benefits of open capital movements for developing countries, and favoured Asian states' insistence on a central role for government, notably in the regulation and supervision of financial markets;[2] US Treasury Secretary Larry Summers in the opposing corner favoured open world capital markets, and argued for an ever more modest role for the IMF as developing countries' needs were met by the continued expansion of world capital markets. The IMF could not expect, he maintained, 'its financial capacity to grow in parallel with the growth of private sector capital flows'.[3]

This chapter seeks to place the debate in a wider setting. The first section presents a matrix to enable us to judge what the various explanations in the US-centred debate included and what they omitted. The second section presents the main arguments deployed in the debate as to the causes of the crisis, the criticisms about policies, and the suggestions advanced for improvements. The third section uses the matrix to illustrate how this debate is located within a rather narrow ideological spectrum and excludes, ignores or side-tracks the insights derived from other perspectives. All of these perspectives raise questions about the legitimacy of states which fail to master financial market flows and the legitimacy of the international financial system, which regularly confronts states with policy dilemmas which only a few can readily deal with.

Differing perspectives on the globalisation debate

This section presents a matrix (see Table 1), the horizontal axis of which presents four elements of the world's transformation, while the vertical axis presents different lenses through which the phenomenon of 'globalisation' is discussed. The four elements of the world's great transformation, whose formative features became visible sometime in the course of the 1970s, are predicated on Karl Polanyi's famous stylisation of the nineteenth-century world as shaped by four institutions – free trade, representative government, the gold standard and the balance of power among states.[4] In the twentieth century, states have shaped and channelled markets, in contrast to the state-imposed primacy of markets depicted in Polanyi's nineteenth century. It is pluralistic politics understood as the association of two or more wills in pursuit of common purposes that drives the world economy,[5] and not abstract 'market forces' which dictate circumstances.[6]

The first institution of the world economy is the state system. Fragmentation and hierarchy are its two central features: the Soviet Union's collapse in 1991 furthered the fragmentation of the world market space and terminated the unequal bipolar structure characteristic of the years following the end of the Second World War. In the post-Cold War world, the United States is clearly the world's leading power,[7] with a galaxy of policy instruments which were harnessed in the 1990s to keep the motor of world capitalism running, through a liberal policy of open markets and 'enlargement' of the area of Western influence to cover the globe.

The second institution is the unit of the system, the state. By the 1990s, Western norms of governance, predicated on the necessary distinction between the sphere of public power and policy and the private domain of individual conscience and rights,[8] faced no major challenge. Both communism and military dictatorships were discredited.[9] Islamic states were experimenting with theocracy, but the example of Iran, Afghanistan or Pakistan was not particularly attractive. The only serious remaining alternative was the Asian developmental state,[10] where government's role was to help chart a development course, and fashion 'an institutional framework for non-ideological and effective policy implementation'.[11]

A third institution is world markets. The rapid expansion in the scope of world business, underpinned by an integrated, around-the-clock global financial market, has resulted in an allocation of world savings to end uses on a truly international scale.[12] Developing countries were eager to tap these markets in order to finance the balance of payments, to make local capital markets more liquid or to accelerate the build-up of their productive capacity. But investors attached conditions such as 'no investment without regime change', 'no funds without structural adjustment' or 'no major investment flows without freedom of capital movements'. World financial markets could not impose policies on sovereigns who refused to comply, but they could make the cost of non-compliance very high.

The fourth institution is the multinational corporation and its relations to home or host governments. Foreign direct investment (FDI) replaced aid and credit in the 1990s as Western corporations adopted global strategies. These entailed integrated production and marketing strategies intended to reconcile the contradictory exigencies of competition in world markets, and the need to be responsive to local conditions.[13] Countries working their way up the value-added chain competed to have their own firms integrated into the networks of strategic accords between corporations, seeking to share the costs and know-how required to supply markets driven by fast-changing technologies and consumer demands.

The horizontal axis presents four different perspectives or strands in the debate about how to interpret the world beyond communism – liberal, social democrat, apocalyptic, realist. Capitalism's predominance in the 1990s left the world looking two ways: back to pre-1914 and forward to the twenty-first century. Pre-1914 seemed in many respects a golden age of civilisation, cut short and wrenched from its path by war and revolution. Was the world heading forward to a renewal of the golden age, or towards the disasters which overcame it in the past? The Asian financial crash, its aftermath and the 11 September 2001 attacks on the World Trade Center buildings in New York and the US Department of Defense in Washington, served as reminders of how integrated and how vulnerable we have become.

Classical liberals consider that trade and specialisation along the principle of comparative advantage have always led to growth, not to underdevelopment.[14] As world markets develop, a universal brotherhood emerges, binding peoples together through a web of private property rights, governed by private law, and relying on tradition and trust. Classical liberalism advocates limited government intervention on the grounds not of efficiency, but of government's clumsy inability to understand the coherence of market phenomena. An international order is perfectly compatible with an international political system of nation states, as it is built from the bottom up, on the basis of domestic national orders.[15]

Neo-liberals, like social democrats, share assumptions from welfare economics regarding market failures, which are to be corrected by government intervention. For them, a world market does not emerge spontaneously, but has to be organised 'from above', through government co-operation and through international institutions. Ultimately, a global public interest is best served by an elite of nationally rooted civil servants working together in international organisations, governments and non-governmental organisations for the good of 'the international community'.[16]

Social democrats concur that we are still in an international economy, predicated on the distinction between the world external to the state's territorial authority, and its internal realm.[17] Because states have forged different social compromises over time,[18] the workings of international markets challenge social stability,[19] which in turn may prompt beggar-my-neighbour policies.[20] Intra-national responses to social conflicts thus engender international tensions, which can only be resolved through co-operation and policy co-ordination among governments in international regimes.[21] The global 'competition system' which results is thus a negotiated construct, which reflects the institutional arrangements – national, regional or global – from which they emerged.[22] Governance in this global economy is necessarily multi-tiered, as in the Middle Ages, where nation states are one class of power in a complex system of power from world to local levels.

Apocalyptic perspectives assume a world where national economies are subsumed in global processes.[23] In particular, free capital movements have created a border-less world economy,[24] where states are less and less able to decide on behalf of their citizens.[25] The result is that power over outcomes is exercised by impersonal markets, and by those who deal in markets and often in disregard of states.[26] The 'manic logic'[27] of global capitalism makes the dreams of the European Union (EU) of continental social democracy untenable,[28] generates 'a race to the bottom' in labour and environmental standards, destroys local cultures [29] or attacks democracy and the welfare state.[30] Politics revives in such a world as the handmaiden of religion, through the delegation of legitimacy from existing states to smaller regions, or through the creation of continental Leviathans – the way of the EU.

Realists maintain that global capitalism is the instrument of the Western powers. Currencies are state-produced commodities, and replicate the hierarchy of the state system.[31] It follows that the world economy has origins and outcomes that are political.[32] In particular, the United States holds structural power, 'the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and (not least) their scientists and other professional people have to operate'.[33]

This matrix of elements and perspectives yields sixteen categories enabling us to judge what the debate among economists in the United States included and left out in terms of possible combinatory explanations of causes, critiques and suggestions with regard to the east Asian crisis. Before exploring these possible combinations, let us present the broad themes present in the US-centred debate.

Causes, critiques, suggestions

This section presents the main arguments deployed in the US-centred debate among economists about the Asian crash debate as to the causes of the crisis, the criticisms of policies and the suggestions advanced for improvements. The debate was conducted with verve, but also with a clear recognition among the more sober-minded participants of the problems confronting reformers. Barry Eichengreen provides a sophisticated rationale for his adopting such a position of 'robust incrementalism': liberalised capital markets are beneficial and as good as irreversible; information asymmetries are unavoidable in financial markets between borrowers and lenders, so the price mechanism cannot be relied on to restore equilibrium, while governments cannot be assumed to provide sound data; given this instability, some form of safety net has to be in place; domestically, the authority exists to police financial markets, but this is not the case internationally; finally, economic policy is framed in a politicised environment, so that the IMF cannot be expected to follow apolitical rules. As Eichengreen writes: 'I stake out a middle ground between the overly ambitious and politically unrealistic schemes of independent commentators and the excessively timid and ambiguous reports of international bodies and organisations.'[34] That middle ground may be located metaphorically somewhere within the triangle, described by Treasury Secretary Summers as the global 'integration trilemma', whereby the central task of international political economy is defined as the task of reconciling the three goals of greater integration, good public management and national sovereignty.

A common theme in the US debate among economists is that the east Asian crisis came as a bolt from the blue: in the words of Morris Goldstein, the fall of the baht in June 1997 served as a 'wake-up call'.[35] Liberalisation of capital account had provided access for many east Asian countries to global capital markets, while fixing exchange rates to the dollar seemed to ensure long-term stability. Decades of vibrant economic growth attested to sound policies in the past, and the upbeat message about east Asia's performance continued through the early months of the crisis: the World Bank published its yearly *Global Economic Prospects*;[36] and the Organisation for Economic Co-operation and Development (OECD) also brought out a special report, *The World in 2020*, where the 'Big Five' emerging markets – Russia, China, India, Brazil, Indonesia – were forecast as assuming an ever greater weight in the world economy. As late as November 1997, US President Bill Clinton referred to 'a few small glitches on the road'.

It was only with the collapse of the South Korean won that winter, and the sharp deterioration in Indonesia's situation, that the severity of the crisis became evident. Thereafter, the 'international financial community', already cogitating since the Halifax summit of 1995 following the Mexican peso crash of late 1994, returned to their collective pen. A flood of reports ensued:[37] the G-7 finance ministers and central bankers issued a special statement about strengthening international financial institutions (IFIs);[38] the Group of 22 (G-22) – an ad hoc group set up by the United States and including a number of emerging market countries – produced a definitive statement in the form of three studies on strengthening the international financial architecture.[39] The UN Economic and Social Affairs Committee chipped in,[40] as did the Bank of International Settlements. The whole was crowned by a report for the Cologne summit of June 1999 by the G-7 finance ministers. The Asian Development Bank also had its say on the matter.[41] Finally, the Washington-based Institute for International Economics produced two key studies, one more on the causes and cures of the

Asian financial crisis,[42] and the other proposing a 'practical post-Asia agenda' for cautious steps to a new international financial architecture.[43] The Council on Foreign Relations produced the findings of its own task force.[44] Unfortunately, as Peter Kenen wrote, all of this activity demonstrated that 'it has proven easier to draft codes than to find ways of inducing adherence to them'.[45]

The first question which all these studies sought to address was: what were the causes of the Asian crash of 1997–8? There were broadly speaking two interpretations: the internalist argument focused on 'crony capitalism',[46] and the externalist argument focused on the workings of the international financial markets. This distinction between the domestic and international arenas, familiar to the literature of international relations, was accompanied by a propensity to allocate cronyism to the domestic realm and rational capital markets to the international arena. The ultimate cause of the collapse was seen as lying in the close connections established within the states between politics and bank-centred financial systems. The states provided implicit guarantees to banks, encouraging the banks to lend to corporations with good political contacts. As capital controls were eased, foreign creditors lent to the banks and credit exploded, despite multiple warning signals ahead of June 1997. Externally, the inflow of capital to the east Asian countries was stimulated by the near-zero interest rates prevailing in a moribund Japan, and by continued investor pessimism about business prospects in Europe. Consumption and imports boomed, just as volume export growth plummeted. With China's accelerated move into world markets, foreign investors switched their attention to opportunities on the mainland, so that east Asian balance of payments' dependence on short-term capital flows increased. When the Thai 'wake-up call' came, alerted investors withdrew in haste from one currency after another.

While the 'crony capitalism' thesis won broad acceptance, there were nonetheless dissenting voices, arguing that information asymmetries were unavoidable in financial markets between borrowers and lenders, and particularly in the international arena where there was no authority to police markets. As Stiglitz pointed out, 'some of the countries with the weakest financial sectors, the greatest lack of transparency, and the most corrupt political structures were hardly touched by the contagion from East Asia'.[47] If that was the case, then the question could not be evaded as to why global financial markets had failed on such an epic scale. George Soros identified investor infatuation with the prospects in east Asia as the source of unsustainable market conditions,[48] as advanced industrial-country banks lent to hedge funds and engaged in proprietary trading on their own account in the currency markets.[49] Another explanation was that governments provided misleading information, and that this was relayed by 'experts' in the global media talking in closed circuit to each other.[50] Given such chronic mis- or disinformation, the only viable policy principle for market participants was *caveat emptor*.[51] Stiglitz's preferred explanation was that markets were driven by an 'instability of beliefs' to switch from optimism to pessimism. Such a switch in mood created a contagion of chain reactions as investors withdrew from the region. It was not clear why the 'instability of beliefs' should have been manifest over the Thai baht in early June, and not at a different time, with different results.

The second question which all these studies sought to address was: what went wrong in terms of policy responses to the crisis? As Eichengreen has pointed out, the Achilles heel of the international financial system is cross-border interbank funding. In emerging markets, foreign investors tend to assume that their loans are covered by government guarantees. Governments can thus be faced with the choice either of validating such expectations or risking serious disruptions to their payments systems, and perhaps to the financial system as a whole. Their crude choice is either to extend ever bigger bail-outs as one country after another threatens to suspend payments or to allow nature to run its course. This lack of choice in the international financial system was compounded, many of the critics maintained, by policy dilemmas in response to the Asian meltdown or at worst by policy errors.

The main critique directed at the IMF was its insistence that the afflicted countries adopt tight monetary policies, on the grounds that lower interest rates would precipitate a currency collapse, prompting a surge in foreign-currency-denominated debt. But high interest rates condemned highly geared east Asian corporations to bankruptcy as growth ground to a halt, and overvalued exchange rates kept exports languishing.[52] Critics also maintained that the situation was worsened by IMF requests for fiscal tightening – despite the fact that east Asian governments ran tight fiscal policies – so that there would be adequate revenues to finance bank bail-outs. IMF closure of what it considered to be dead banks ignored the fact that the fraction of banking systems in developing countries with dead loans tends to be high, given limited technical, legal and institutional capabilities. The measures also panicked the public, notably in the case of South Korea and Indonesia. Finally, critics argued that the IMF became too deeply engaged in the domestic affairs of states,[53] for which it lacked the necessary expertise. The IMF also intervened to ensure that a balance was struck between a bail-out of investors to limit the damage to confidence in international financial markets and a work-out in the afflicted countries to reconcile the twin requirements of financial viability and political stability.

The third question which these studies sought to address was: what suggestions followed from these critiques for strengthening the 'international financial architecture'? Five critical areas were identified for the working of the international financial system.

First, when and if capital accounts are liberalised, countries become more prone to financial crisis unless market opening is accompanied by adequate supervision and regulation of financial intermediaries. This observation prompted proposals whereby individual states would be justified in closing capital flows in order to offset panics.[54] But capital controls entail a number of penalties, the most obvious of which is that companies seek to keep funds abroad by over-invoicing their shipments into the country, and under-invoicing their exports. Countries are restricted in their access to the huge pool of world savings. If liberalisation is undertaken, the lesson is that the measures should be carefully sequenced to allow strengthening of financial supervision, and for an upgrading of financial practice within the country. A variety of proposals was made also to 'cool the casino', to 'throw sand in the wheels of international finance'.[55] Possibly the best known of these measures is the 'Tobin tax' on foreign exchange transactions. But a Tobin tax is readily avoidable, as currency traders can relabel transactions, or move operations to tax-free jurisdictions. In general, the main lesson on capital controls from the east Asian experience and the subsequent currency upheavals is a modest recognition that macroeconomic policies, capital controls and prudential measures all have a role to play in achieving the widely shared objective of limiting macroeconomic and financial instability.[56]

Second, one key reason for financial crises was identified as exchange rate collapses linked to bad banking, due to under-capitalisation of banks, poor supervision and mismatches between loan maturities and currency exposures.[57] Hence, there was general support for worldwide improvement in regulatory standards but no accord on how to implement them effectively. For instance, the 1988 Basel Capital Accords were designed in part to provide an international standard for assessing risks, but they dated fast as hedge funds developed derivatives and a variety of new instruments to mitigate or to displace the burden of risk. The accords may also have encouraged short-term lending to emerging countries, as the risk weightings are lower for short-term loans. The G-22 therefore recommended that the IMF issue a transparency report along with Article IV assessment of country situations. The requirement for transparency flowed from the circulation of inadequate information. Once the true situation was revealed, investors panicked. But, as has been pointed out, 'In East Asia, much of the important information was available, but it had not been integrated into the assessment of the market.'[58]

Third, flexible exchange rates were identified as preferable to fixed or pegged exchange rates, because they provide greater autonomy for the government in managing an open economy. But there was no clear consensus on exchange rate regimes, other than that they should be re-thought. The hardline argument in favour of flexible exchange rates held that it was the external counterpart to good housekeeping: flexible rates are one aspect of a broader self-help policy, the keys to which are access to substantial international liquidity through the accumulation of foreign exchange reserves and ready access to loans on the international markets.[59] But no country is exempt from contagion, so these externally oriented policies have to be supplemented by measures to improve the functioning of domestic markets. Others were clearly sceptical that emerging market governments could effectively implement such a sophisticated policy, particularly in view of the gyrations in the foreign exchange markets between the main currencies. Their preference may go to the 'joint management of exchange rates' by the governments of the major industrialised countries, as a step to bringing economic policies more in line.[60] That would require strengthening the G-7 system, in order to determine the rates between the currencies. UK Chancellor of the Exchequer Gordon Brown put his oar in with a proposal for a new permanent Standing Committee for Global Financial Regulation bringing together the IMF, the World Bank, the Basel Committee and other regulatory groups. [61]

Fourth, there was a plethora of proposals regarding the IMF's role. One is to abolish it, as each time it bails out creditors after a currency run, they rush back to lend even more.[62] A more moderate proposal was for the IMF to focus more on debt restructuring or standard setting.[63] But as Eichengreen points out, it is still required to act as a brake against meltdown. Clinton came up with the opportunistic idea of creating a contingency fund, 'anchored in the IMF', implying that at each disaster a new 'contingency fund' be placed on call. A further idea was for the IMF to lend only to those countries that signed up to tough loan conditions.[64] But this would create the equivalent of a junk-bond market for defaulters, attractive to those eager to live in exciting times.

Fifth, there was also a plethora of suggestions for regulating the global market for credit. One of the main novelties of the 1990s crises was the multiplication of private credit and debt lines, as state debt became less significant. Steps had been taken by the Group of Ten (G-10) in 1996 to allow for more collective organisation of sovereign liquidity crises. The foundations had been laid by the Brady Plan to deal with the debt overhangs from the 1980s Latin American crises, and to 'bail in the private sector'. But incentives and threats were not sufficient to make individual institutions develop a sense of collective responsibility, so that further appetisers were advanced. One idea was to create an international bankruptcy court, with powers similar to those embodied in US legislation, enabling it to impose a stay on payments and enable the debtor to continue to borrow pending judgement.[65] Even more attention-catching proposals were those for a world financial regulator,[66] a world central bank, or an international authority to insure investors against debt defaults.[67] More modestly, Martin Goldstein argues for actions discouraging private sector borrowers from mismatching their currency liabilities and assets.[68]

The debate about the east Asian crisis, its causes, consequences and suggestions, may be simply summarised: the distinction between the domestic and international arenas was maintained, but it was not clear why some and not other crony-ridden countries were affected in different ways and at different times; why the 'instability of beliefs' should have been manifest over the Thai baht in early June, and not at a different time, with different results; or whether governments should or could simultaneously guarantee their banking systems and end capital controls. There was a widely shared assumption that the IMF committed policy errors and displayed ignorance about the specific features of the east Asian economies. The suggestions flowing from this analysis were necessarily modest: most significant was the key insight that a diverse world could not have rigid rules and regulations applied uniformly.[69]

The implication was that one challenge of global governance was to set broad parameters of policy to allow for diverse policy capabilities around the world. It follows that there was no panacea or magic wand to be waved, but rather diverse conditions of transparency, financial systems and corporate governance,[70] and different regimes for exchange rates, depending on circumstances. Barry Eichengreen concluded that the slow and painful efforts at extending international standards to areas beyond the strictly monetary amounted to 'a very significant development affecting the structure and stability of the international business system'.[71] Not least, the crop of reform proposals served as a reminder that it was relatively easier to advance a proposal to reform institutions than to analyse the politics of international finance. To this we shall now turn.

What has not been written

The conclusion about what has/has not been written about emerges clearly from the matrix. The US-centred debate among economists falls within the neo-liberal and social democrat perspectives, and covers only partial aspects of our four elements. Let us follow the middle ground between the liberal and social democrat perspectives down the elements on the vertical axis, and start with the state system. We can then briefly point out the possibilities for a much wider research agenda regarding reform of the international financial architecture, by making explicit the varied assumptions ventilated in the debate, and thereby to do them justice.

The first conclusion to draw is of a pervasive neo-liberal optimism about the beneficial workings of international organisations and regimes, combined with a social democrat twinge of anxiety that global capitalism may not be readily tamed. The US-centred debate among economists abounds in critiques of IMF policies on interest rates, taxation and the trade-offs between bail-out and work-outs, and makes suggestions – mostly inconclusive – to the effect that policy reforms and moves to capital liberalisation should be carefully sequenced; that transparency is desirable, but not a panacea; that flexible exchange rate regimes are nonetheless vulnerable to contagion; that the IMF's role should be reconsidered; and that perhaps something should be done to regulate global credit. While a plethora of eye-catching proposals was advanced to create a new crop of agencies, more serious people suggested improvements in the functioning of the existing set of institutions. This moderation derives from a sensitivity, notable in Eichengreen, that government failures abound in economic policy, that the fragmented state system ensures that there is no single authority to police financial markets, and that economic policy is framed in a politicised environment, so that the IMF cannot be expected to follow apolitical rules.

The second conclusion is that the debate clearly labels the east Asian states as 'crony capitalists' and cronyism as a major explanation of the meltdown. This is surprising, since prior to June 1997 the east Asian governments had been held up as exemplars of state developmentalism, with an excellent track record in terms of economic performance. Perhaps it is less surprising in view of the US preference for a clear separation between the domains of public power and the private sphere: the crony thesis clearly suggests that failure to separate public policy from private gain can have serious implications for government legitimacy, financial stability and corporate profitability. On the other hand, both neo-liberal and social democrat perspectives accept that government intervention in national markets is the result of negotiated compromises among key participants in an ongoing policy process. Indeed, cronyism in this perspective is not a peculiarity of east Asia, but is the norm of all states. As Jagdish Bhagwati has pointed out with regard to US elites, 'a dense network of like-minded luminaries among the powerful institutions – Wall Street, the Treasury Department, the State Department, the IMF, and the World Bank most prominent among them', have hi-jacked the argument in favour of free trade markets and applied it to promote free capital mobility everywhere.[72]

What was being criticised in east Asia presumably, then, was that Asian norms of governance, previously predicated on narrow insider elites (crony capitalists, for the abusive), should provide better, more reliable information faster. They should practise transparency in decision-making, and develop greater accountability as their economies became more interdependent with the rest of the world. If, on the other hand, the source of the problem lay in the BosWash (Boston–Washington) elites, then the very talk of governance, transparency, accountability was the export of the world's rulers to the barbarian tribes on the periphery of empire.

The third conclusion is that the US-centred debate among economists isolates global financial market failure as a major cause of the Asian meltdown. Growing domestic–external imbalances have accompanied the opening of trade and capital accounts. Because financial markets are imperfect, at any moment an 'instability of beliefs' can switch market moods abruptly between optimism and pessimism. Co-operation between states in international regimes is vital, but not foolproof, as the east Asian crisis indicates. Suggestions for action to avoid such events in the future are allocated to governments or to international organisations. One source of embarrassment is that if global markets are capable of failure on such a grand scale, by what right are they judge and jury over the lives of millions of people? Malaysian Prime Minister Mahathir Mohamed's answer in August 1998 was that world markets do not have the right; states have the right to impose, or to raise, capital controls regardless of what world financial markets' reactions might be. Another source of embarrassment is that the incentives for developing country governments in the future to follow Western demands on countries seeking access to global markets are not strengthened when the IMF is lampooned for the advice it gave in the east Asian crisis.

Beyond that, the US-centred debate leaves great voids in the matrix whether in terms of causes, critiques or recommendations about the east Asian crisis. Let us briefly review some of the gaps by looking, for instance, at three of our elements and tracing them across the perspectives, to see what different angles they highlight.

In terms of the state system, let us start with the classical liberal perspective. The world's political fragmentation is a problem in two ways: it complicates the functioning of international payments, and makes it less likely that all governments agree on what constitutes good policy. There will therefore be international frictions which international organisations can help to treat, but responsibility for the good functioning of the system falls to the states at the top of the world hierarchy. Hence, a classical liberal study would definitely incorporate a careful analysis of US and Japanese global and domestic financial policy contributions to the east Asia meltdown. By contrast, a neo-liberal perspective would place more emphasis on the absence of an overarching financial market regime throughout the region. The neo-liberal position postulates that the fragmented state system requires inter-state co-operation in international institutions and regimes. The way world markets operate will reflect how well or poorly these international regimes operate. This position is duplicated in the social democrat perspective, with more emphasis placed on the interplay through regimes and markets of domestic structures and preferences: in the east Asia case, for instance, a careful analysis of Japanese financial market reform would show that the failure to reform was one major contributing factor to the flow of Japanese funds into Indonesian rupiahs at the height of the Indonesian boom in early 1997. There would also be an emphasis on highly active 'non-governmental organisations' to promote labour standards, to protect the environment, or to promote local cultures against the new imperialism of the Western media. These, too, played a significant part in the east Asian crash, but barely received a mention in the debate.

The prophets of apocalypse, by contrast, see the world system as driven by an economic process detached from its political roots. Rootless multinational corporations, cosmopolitan financial forces, and elites in Anglo-Saxon countries are the winners. The east Asian crash would be an ideal case study to test these hypotheses; after all, multinational corporations had flooded into east

Asian countries in preceding decades. What did they, or did they not, contribute to the Asian meltdown? Was the fast money 'cosmopolitan', or was it mainly local money rushing for the exits? and were those old enemies of Hitler's and Stalin's orphans, the 'Anglo-Saxons', benefiting by the crash? Definitely, with the voices of apocalypse loud indeed in the EU (Forrester), in the United States (Buchanan), in Japan (Ishihara), and indeed in Saudi Arabia as has become evident since the 11 September 2001 dual attack on the symbols of 'Anglo-Saxon' power – here are the sources of reaction to liberalisation, anticipated by Polanyi. Finally, the realist position would start from the observation that the world financial system is unipolar, that the euro and the yen are eventual challengers, and that therefore the Asian crash is worth studying to identify how this struggle was played out there. US Treasury opposition to Japanese proposals from early 1997 on were a central feature of the drama, and was highlighted in the discussions among international political economists. Its absence was notable in the US-centred debate among economists.

Turning to the state as a unit, the US debate among economists and public officials treats politics as a ghost, with an occasional walk-on part, operating as a sort of deus ex machina to enliven proceedings.[73] Only 'cronyism' is isolated as a major contributing factor to meltdown in Bhagwati's broadside, cited above, serving as a reminder that classical liberals are quite prepared to apply the same term to the Western powers. Classical liberals maintain that sound policy starts at home, and sound policy for the world starts in the domestic environment of the lead state. But classical liberals can live easily with political and institutional diversity. Indeed, they argue that specialisations beneficial to international trade arise from the different institutional constructs reached over time by polities, negotiating their insertion into world markets both domestically and internationally. The neo-liberal takes a more affirmative stance, arguing that market imperfections, under restrictive conditions, can be corrected by judicious government intervention in the public interest. Governments of course pursue many different objectives, some of them classifiable in terms of efficiency and others in terms of order, justice and equity. If a state pursues efficiency, then it might liberalise capital movements completely, and draw on world savings to accelerate growth. Under these conditions, it follows that forgoing the benefits of liberalisation on capital account is an expensive way of exercising discretion. If, by contrast, the state's policy may be stylised as a mixture of efficiency and justice, where efficiency refers to measures regarding capital account liberalisation, and justice refers to alteration of prevailing government norms, say to more democracy, the optimal policy to achieve both objectives may require a complex sequencing of measures, which interact one on another.

This situation was descriptive of Indonesia: the rupiah plunged in autumn 1996, when President Suharto's wife died, recording the financial markets' concerns about how the president would manage his succession. In the US debate among economists there was barely mention of this simple point: many east Asian states were undergoing a process of more or less fundamental challenges – political, legal, corporate, financial – to prevailing governance norms before, during and after the east Asian crash. On a broader canvas, this constituted a major oversight: since the 1970s there had not only been global financial market contagions, but also contagions of democratisation and contagions of 'state withdrawal' from the market. Even more blatant, the neo-liberal position on the imperfection of markets is compatible with the position of political economists who argue that different capitalisms have developed as countries have worked out their own distinct political compromises between participants in national markets. If markets were recognised as imperfect, why was there not a much sharper accent in the US debate among economists placed upon the incongruity of global public policy demands for imposing uniform rules on a non-uniform world, as illustrated through the policy preferences of the IMF, the US Treasury or Goldman Sachs?

Finally, let us briefly point out the gaping void in the analysis – the lack of mention of the role of corporations in the east Asian crash. Corporations are a key institutional pillar of modern capitalism, but they barely get a mention. They invested heavily in east Asia prior to the crash; it is recognised that from 1993 onwards the multinationals have been attracted to China, now in competition with east Asian countries as a platform of production for Western markets. Was the Asian meltdown a 'bolt from the blue' for the multinational corporations? No doubt the picture is varied; in any event, many corporations did not waste much time buying up east Asian state assets at knock-down prices. In this sense they were beneficiaries from the outcome of the financial crash. Was this because they were opportunistic, or were there more powerful forces at work, related for instance to the incorporation of local suppliers into multinational global production and marketing networks? Multinationals, of course, feature in the apocalyptic world vision, as does the theme of an undifferentiated global process, the retreat of the state and US power. Are these themes at play in the east Asian crash, or is the timing of the contagion and the choice of countries related to the continued importance of the differentiation between domestic and external environments, a rearrangement of state structures rather than a retreat of the state, and the competition between the business communities of the region?

Where does this leave us with regard to the question: what is/is not written? What is written is from the viewpoint of evolutionists, working within the entrails of the international financial system. There are two categories of evolutionaries: neo-liberals and social democrats, both in some ways linked to a realist perspective. What has not, or has hardly been written about in the ongoing debate about reform of the international financial architecture is the rest. The radical positions are taken up by the classical liberals, few in number but important because of the light they shed on the practice of power in the world political economy. Radical positions from a very different perspective are also occupied by the prophets of apocalypse, baying from the streets surrounding the glass palaces of the international organisations. The realist arguments about power clashes, conducted through states or among corporations, are few. An international political economy approach would have to cover this much wider canvas in order to assess the east Asian crisis, and have its elements weighed in the balance. It would also focus on the complex links between the state system, the domestic structures and performances of states and the workings of world markets, understood as operating in and around political constructs. Above all, there is the salient void of the role of multinational corporations in the Asian crash to be filled. Susan Strange, were she still here, would chide us for that.

Notes

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18. See Michel Albert, *Capitalism against Capitalism* (London: Whurr, 1993); S. Berger and E. Dore (eds.), *National Diversity and Global Capitalism* (Ithaca: Cornell University Press, 1996); Peter Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986); R. Whitely, 'Internationalization and varieties of capitalism: the limited effects of cross-national co-ordination of economic activities on the nature of business systems', *Review of International Political Economy*, vol. 5, no. 3, 1997, pp. 445–81.
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